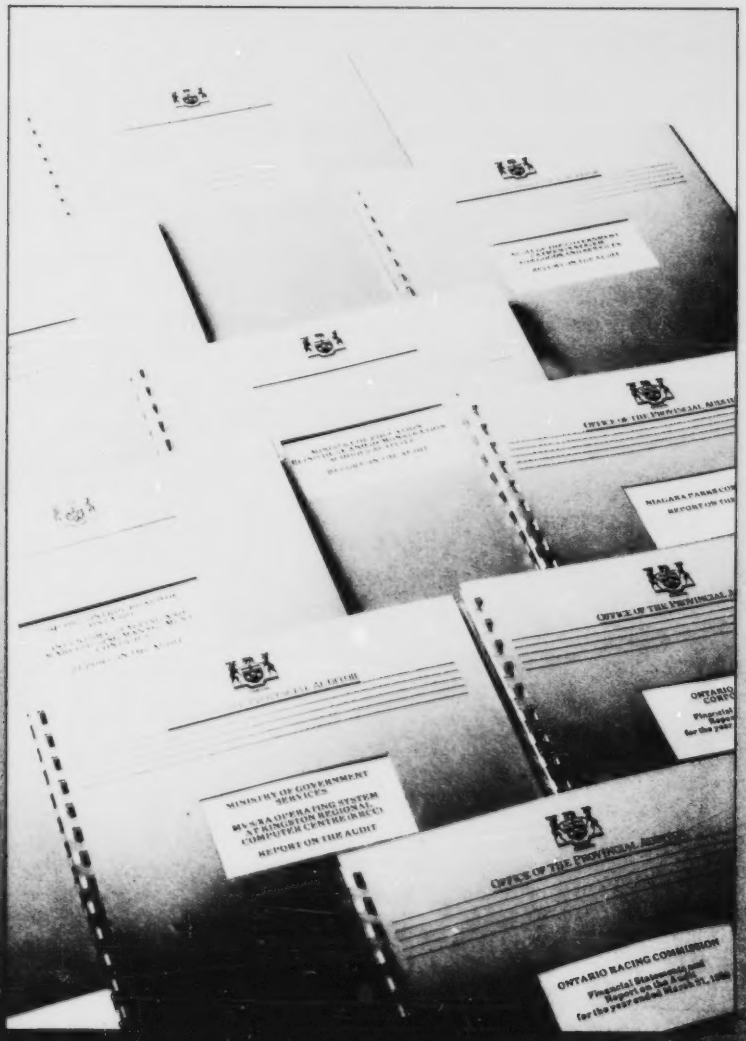
OFFICE OF THE PROVINCIAL AUDITOR

ANNUAL REPORT OF THE PROVINCIAL AUDITOR OF ONTARIO

For the year ended
March 31, 1987



Annual Report of the Provincial Auditor of Ontario

For the year ended March 31, 1987

THE HONOURABLE
HUGH EDIGHOFFER, M.P.P.

Speaker of the Assembly
Province of Ontario

Dear Sir:

I am pleased to transmit my report for the year ended March 31, 1987, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 24, 1987.

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EXHIBITS

1. Province of Ontario, Audited Financial Statements, year ended March 31, 1987.
2. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1987.

Office of the Provincial Auditor:

3. - Organization Chart.
4. - Government-Wide Matters and Special Reviews.
5. - Ministry Audits.
6. - Agency of the Crown and Crown Controlled Corporation Audits, year ended March 31, 1987.
7. - Audited Statement of Expenditure, year ended March 31, 1987.
8. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.
9. Status of Recommendations Contained in the Reports of the Standing Committee on Public Accounts to the Legislative Assembly.

INTRODUCTION

Reporting Responsibility

Under Section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations. Essentially, the Annual Report includes the following information:

- an opinion on the Province's financial statements as to their fairness and consistency in accordance with stated accounting policies;
- the disclosure of matters of significance noted in the course of audits, including:
  - accounts or essential records improperly maintained;
  - inadequate procedures and rules for the safeguard of public property, the collection of revenue and the authorization of expenditures;
  - money spent without due regard to economy and efficiency; and
  - lack of appropriate procedures to measure and report on the effectiveness of programs.

Submission of Annual Report

To comply with the Audit Act, and to allow the required time for the preparation and printing process, our annual reports cover all audits completed to the end of each September. This Report, therefore, covers audit activity through the twelve month period from October 1986 to September 1987.

As a result of printing deadlines, it is not possible to include in this Report any replies from ministries and agencies of the Crown received subsequent to October 16, 1987. However, all such replies are forwarded by this Office to the Standing Committee on Public Accounts of the Legislature after this Report has been tabled.

Basis of Reporting

The contents of this Report are prescribed by section 12(2) of the Audit Act. Its purpose is to report on those matters which have been observed and which, in our opinion, would be considered of significance to the Legislative Assembly. In many respects, therefore, this is a report by exception.

Reporting in this manner may unduly emphasize deficiencies without giving credit for the many situations where no significant irregularities were observed.

The reader is cautioned against drawing unwarranted conclusions from the reporting of observed instances. Unless otherwise indicated, observed instances are simply that. It would be incorrect for example, for the reader to conclude that other similar transactions or activities of the particular ministry or agency were handled in a like manner.

Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports

It is our practice to follow up the status of suggested corrective action and recommendations during subsequent audits. In this connection, the status of suggested corrective action and recommendations contained in the body of our 1986 Report and unresolved matters from previous reports is indicated in Exhibit 8 of this Report.

CHAPTER 1
SIGNIFICANT AUDIT OBSERVATIONS

1.1 Introductory Comments

The Office of the Provincial Auditor audits the operations of the Ontario Government on an ongoing basis. With expenditures of over $32 billion, on hundreds of programs and activities delivered by more than 25 ministries, the operations and systems are far too large and complex to audit in their entirety on an annual basis. Accordingly, the Office audits a selection of programs, activities, financial and information systems each year, so that over a four to five year period all of the major operations are examined.

Additionally, the Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Informing the Legislature of the more significant results of the annual audit activity assists the members in holding the Government to account for its administration of the areas examined. Over time, the process should contribute to better administration of public funds.

1.2 Overall Assessment

We believe that professional training and years of experience enable us to recognize good management and to understand good management practices. These factors have also provided us with a good understanding of the nature of government and its operating environment. When viewed from this perspective it is our opinion that the areas audited during the past year have been satisfactorily administered overall.

While there will always be instances of weaknesses and deficiencies in operations of the scope and size of the Ontario Government, it is our view that these are the exception rather than the rule, and that on balance administration of public funds continues to improve.

We are pleased to report that we received all the information and explanations required. We would like to acknowledge and thank all those from whom we received assistance.

1.3 Report Highlights

Accountability to the Legislature

In recent years there has been increasing focus on accountability throughout the public sector. In our 1986 Report we commented on accountability within government, in particular the initiatives undertaken in response to a self-commissioned government-wide study on accountability and management practices.

This year we have looked at the issue from the standpoint of Government's accountability to the Legislature, the cornerstone of which is the Estimates review process. Unfortunately, this process is beset with long standing procedural and attitudinal problems and is therefore largely ineffective.

Over the years many studies, including those of various committees of the Ontario Legislature, have addressed these problems and recommended improvements. To date, however, very little change has taken place.

We support the generally held view of the need for a special Committee to examine selected ministry Estimates in depth each year. We have proposed that the Standing Committee on Public Accounts play a leadership role in the necessary reform. The work of a special Committee could also be coordinated with the ongoing work of the Standing Committee on Public Accounts and this Office (Chapter 2).

Internal Audit

Internal audit can provide an important check on accountability in most organizations, particularly one the size and complexity of the Ontario Government. A primary objective of internal audit is to provide assurance to the Deputy Minister and other senior officials as to the integrity of financial accounting and management systems and the information they contain.

We reviewed the internal audit function across government, a follow-up to a similar review conducted in 1980. We found that significant improvement had taken place. However, substantial further improvement would be required before internal audit could realize its full potential and this Office could generally accept the results of its work (Section 3.4).

Administrative Practices

A number of audits disclosed evidence of poor administrative practices. Cost implications were frequently quite significant. For example:

- Liquor sales in Ontario totalled $1.8 billion in 1987 and generated net income of $637 million. We observed several areas where better control of administrative costs could have contributed to higher net income. These included excessive inventory levels, overstaffing of stores and continued operating problems at the largest warehouse (Section 5.2).

- The Ministry of Correctional Services is responsible for providing custody and care to inmates through correctional institutions. Relevant expenditure totalled $240 million in 1987. In our view better monitoring of the various institutions was needed. For example, we noted large differences in operating costs between institutions, infrequent review of staff levels and little attempt to measure the success of rehabilitation programs (Section 4.5).

- One of the objectives of the Ministry of Northern Development and Mines is to encourage and regulate the orderly development of mineral resources. We looked at two of the relevant functions in the Ministry and found evidence of inadequate management practices. The selection of geological projects, for example, was informal and unclear and ongoing project monitoring was weak. In addition, security over mining claim records was lacking and fees charged for permits and other services were totally out-of-date (Section 4.10).

- We also had some concerns regarding the adequacy of electronic data processing (EDP) in two of our audits, particularly in respect of the Health Insurance Program. We observed that the computer system was outmoded and unresponsive to the present-day needs of OHIP (Section 4.8).

Services to the Public

Several audits involved elements of program delivery that have a direct effect on the quality of life for segments of society. For example:

- Expenditure under the Ministry of Health's Mental Health Program totalled $490 million in 1987. A number of significant problems were evident in the delivery of mental health care services. We found, for example, that substandard conditions in the Provincial Psychiatric Hospitals were adversely affecting patient care and contributing to a stressful work environment. High occupancy rates in psychiatric hospitals forced many patients into the community. Shortages of community housing and support services often caused discharged patients to relapse and be readmitted to hospital (Section 4.9).

- The Environmental Control Program of the Ministry of the Environment includes the protection of air and water quality. Expenditure under the Program amounted to $74.8 million in 1987. We concluded that much greater effort was needed by the Ministry to identify sources of pollution and to enforce compliance to requirements by polluters (Section 4.7).

- The Provincial Highways Program is to provide and maintain a highway system that will satisfy the needs of the people of Ontario. Expenditure on capital and construction activities totalled $214.7 million in 1987. In our view the determination of construction priorities was questionable in several instances. We also felt that some priorities should be established on a province-wide basis; all are now decided on a regional basis (Section 4.14).

The Positive Side

Audit reports are usually perceived, particularly by those whom we audit, as negative documents. This view is understandable since, as noted in the Introduction, our reporting mandate stresses the disclosure of deficiencies. We do, however, acknowledge situations which we believe are indicative of particularly good administration. This report contains a number of such instances. For example:

- The Province's expenditure for goods and services amounted to $1.9 billion in 1987. In a government-wide review of the Payments System we found that administrative control over payments was good and that the System, in all material respects, was operating in accordance with government policies and procedures (Section 3.3).

- During 1987 the Ministry of Transportation and Communications awarded over 180 contracts for the construction of provincial highways with a tender value of $225 million. We concluded that the Ministry had strong procedures

We support the generally held view of the need for a special Committee to examine selected ministry Estimates in depth each year. We have proposed that the Standing Committee on Public Accounts play a leadership role in the necessary reform. The work of a special Committee could also be coordinated with the ongoing work of the Standing Committee on Public Accounts and this Office (Chapter 2).

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- During 1987 the Ministry of Transportation and Communications awarded over 180 contracts for the construction of provincial highways with a tender value of $225 million. We concluded that the Ministry had strong procedures

to ensure that contractors were fairly selected and that payments were made only for materials and services provided (Section 4.14).

In our audit of Schools for the Blind and Deaf and Demonstration Schools we were particularly impressed by the dedication and efforts of the staff in dealing with the care and special needs of the children (Section 4.6). A similar observation was made with respect to Provincial Psychiatric Hospitals where we found the level of dedication displayed by staff remarkable in the circumstances (Section 4.9).

CHAPTER 2
THE LEGISLATIVE ACCOUNTABILITY PROCESS

2.1 Accountability of Government to the Legislature

In our system of government, elected members of the Legislature are accountable to the people of the Province. In turn, elected members hold the Government of the day to account for its proposed policies and plans and for its subsequent performance. Initially, the Legislature examines and approves what the Government intends to do. It authorizes the collection of revenue and other means of financing, and approves the ways in which the Government proposes to spend the funds raised. It then reviews how well the Government has carried out the approved policies and plans.

Accountability for Policies and Plans

Budget

The Budget and the Estimates are the primary vehicles through which the Legislature exacts accountability from Government for its policies and plans.

The Legislature's role in the budget process begins when the Treasurer tables the Budget in the House and moves approval of the budgetary policy of the Government.

In his speech to the Legislature, the Treasurer reviews the state of the economy, the Government's financial operations during the last year and any changes in policy. A key component in the Budget is the Government's financing and spending plans for the current year.

The Opposition Treasury critics reply to the budget speech and each party has the opportunity to move an amendment indicating lack of confidence in the Government.

Approximately two weeks of House time is spent debating the Budget. It is the main order of business in the House for a few days after the Budget's release. Thereafter, it is further debated throughout the session between other items of business. The Budget is voted on only near the end of the session, after all expenditure Estimates have been approved and all tax bills passed.

Revenue and Financing

The various taxing statutes outlined in the Budget are dealt with in the same manner as other Government bills, receiving three readings in the Legislature.

Once authority has been granted by the Legislature for financing, it is generally ongoing. Revenues such as personal income tax and retail sales tax, as well as those from trust and deposit funds (for example, the Public Service Superannuation Fund and the Province of Ontario Savings Office) may be raised through legislation passed in previous years.

The Budget sets out any changes in the amounts or nature of the financing to be generated (e.g. changes in rates of personal income tax). Any necessary amending legislation must then be passed by the Legislature to authorize the changes to be implemented.

The Budget also identifies any borrowing (e.g. debentures, Treasury bills) necessary. Such financing is authorized annually by the Legislature through separate legislation, the Ontario Loan Act.

Expenditures and the Estimates Process

The Budget outlines the Government's proposed spending for the year. However, for purposes of legislative scrutiny, additional detail is provided by ministry expenditure Estimates. The Legislature scrutinizes and approves these spending plans of the Government on an annual basis, and they are subject to much more intensive scrutiny than those dealing with financing.

The Estimates are prepared on a ministry by ministry basis and provide details of expenditure by program and activity and by accounting classification (e.g. salaries and wages, employee benefits).

All main Estimates are to be presented to the House not later than five days following the presentation of the Budget. A total of 420 hours is allotted for consideration of all Estimates. The three House Leaders decide which Estimates will go to which committees, the length of time to be spent on each set of Estimates, and the sequence in which they are to be considered. Approximately half must be referred to standing committees. The others automatically go to the Committee of Supply of the House (the Legislature resolving itself into a Committee).

Prior to the consideration of a particular set of Estimates, the appropriate minister is to provide advance briefing material to the Opposition critics, as well as up-to-date information on actual expenditures in the preceding fiscal year.

During Estimates debates in committees, members of the Legislature have the opportunity to question ministers on the operation of their ministries. The main questioning is usually done by the Opposition critics, but any member is free to take part, and no time limits are imposed on speeches or questions. Committees do not have the authority to increase the amounts set out in Estimates. They are able to decrease allocations, but seldom choose to do so.

Once the allotted hours for a particular set of Estimates have been used up, they are reported to the House by each committee chairman, even if some elements of expenditure have not been debated. An Order for Concurrence in Supply is placed on the Order Paper. The final debate, in which members can talk about any of the Estimates approved in committee, is limited to one sitting two-and-a-half hours long.

Concurrence motions are usually passed near the end of the fiscal year. After all the Estimates have been concurred in, the debate on the Budget is concluded with a motion being passed that "this House approves in general the budgetary policy of the Government".

Authorization for Expenditures

Formal authorization for use of funds is granted through the passing of the Supply Act. It authorizes payment out of the Consolidated Revenue Fund of the aggregate amount of all Estimates concurred in for the balance of the fiscal year.

The Supply Act is often not passed until late in the fiscal year to which it applies. In the meantime, expenditures out of the Consolidated Revenue Fund are authorized by passing a motion for interim supply.

The Government can also introduce Supplementary Estimates to change or increase appropriations to various ministries. They may be considered together with the main Estimates or referred to committee separately. A second Supply Act may be required to authorize Supplementary Estimates introduced and approved after the voting of the main Supply Act.

Accountability for Performance

The Government must carry out its revenue and spending plans within the authority granted by the Legislature. Pursuant to this responsibility, the Government is accountable to the Legislature for the manner in which it collects and administers these funds.

Ongoing Accountability

The major public forum in which the Government has to explain and defend its policies and activities is the House itself. It is here that the Legislature can demand an ongoing account from the Government on its performance.

For example, members of the Legislature can query a minister making a ministerial statement in the House on Government policy or ministry action. A question of a minister can also be placed on the Orders and Notices paper, to be answered within 14 days.

Oral Question Period is the most notable occasion when any minister of the Government is open to queries from any member of the House. The Legislature's scrutiny of the Government is carried to the public by the presence of the press and television coverage of the proceedings.

Other means by which MPPs can examine and question Government's performance include: presenting petitions, motions for production of papers, raising grievances at adjournment, initiating emergency debates and non-confidence motions, and use of points of privilege and points of order.

The Government's performance is also scrutinized through the work of standing and special committees, which review in greater detail aspects of the Government's administration. Committees are able to initiate inquiries into any Government action or policy they consider to be of importance.

Year-End Reporting

One way in which the Government accounts for its actions is through a year-end reporting system. For example, at the end of each fiscal year ministers are required to submit annual reports to the Legislature describing the activities of their ministry.

Financial reporting of the Government to the Legislature takes the form of the Statement of Public Accounts. This consists of a statement of the complete accounts of all ministries, assembled and summarized each fiscal year under the direction of the Ministry of Treasury and Economics. The information is compiled in three volumes called the Public Accounts of the Province and is tabled in the House.

Need for Legislative Auditor

Because of the size and complexity of government the Legislature requires an independent assessment of how well the Government is administering its resources.

Each year, the Provincial Auditor reviews and assesses many areas of government operations. Significant findings are included in the Provincial Auditor's Annual Report to the Legislature. This Report assists the Legislature in evaluating the quality of the Government's administration of public funds.

Standing Committee on Public Accounts

The primary legislative forum for the examination of Government accounts and performance is the all-party Standing Committee on Public Accounts.

The Committee's role is to protect the public interest regarding the Government's management of public funds. As well as initiating special investigations, it examines the Public Accounts and the Provincial Auditor's Annual Report.

Public Accounts Committee meetings are public forums where civil servants can be called to account for their management of public funds. Deputy ministers, as chief administrative officers responsible for ministries, are the focal point of Committee inquiries. Other ministry officials may be called upon and, if a matter has not been resolved to the satisfaction of the Committee, a minister may be asked to appear.

The Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

2.2 The Estimates Process - Maligned and Ineffective

It is evident from the preceding section of this Report that the Estimates are the cornerstone of Government's financial accountability to the Legislature. The Estimates process is the basis upon which the Legislature is asked to fund the activities of the Government. If Government is to be properly accountable to the Legislature, the Estimates review process must be effective.

Far from being effective, however, the process of Estimates review is sadly deficient.

In 1982, the Ontario Standing Committee on Public Accounts observed, "The current practice of estimates consideration in the Ontario Legislature is all but a total failure so far as examining projected government expenditures and evaluating the spending

decisions underlying policy . . . For the most part the estimates are little more than an enormous yet pointless drain on the time of the Members of the Assembly, Ministers and ministry staff."

Two years earlier, Ontario's Procedural Affairs Committee noted, " No one in Parliament is seriously examining the more than $17 billion of annual public expenditure before it is spent." This warning was repeated verbatim by the Committee in 1985. By this time, Ontario's budget had grown to $26 billion.

We wanted to find out how the current elected members of the Ontario Legislature generally regard expenditure review, what problems they see with the process, and what changes they would like implemented. To this end, we discussed the issues relating to the Estimates with a number of MPPs from all three parties.

We found that the perception of the Estimates process was unanimously negative. The prevalent view expressed was that Estimates do not provide the Legislature with proper financial accountability. As one member said, "Taxpayers are under the illusion that the Legislature is really doing something. But there is no effective control on the part of the Legislature. No one is seriously looking at government spending plans."

Estimates appear to be considered more a legislative formality than a practical exercise in governing. They are seen as form without substance. Poor attendance at committee meetings and the large number of member substitutions were pointed to as proof of the lack of relevance of the Estimates. "Estimates have become just a filler," one member commented. " MPPs don't like estimates debates. They would rather be discussing legislation. That's where the action is."

Procedural Problems

The members interviewed agreed that improvements are needed in the procedures associated with Estimates. Timing and scheduling were specifically mentioned as leaving much to be desired.

Estimates are always considered during the fiscal year to which they apply. This means that much of the debate on spending takes place after the fact. Furthermore, they are scheduled in such a way as to backlog towards the end of a legislative session, thus lengthening the time gap between actual spending and voting. How can the process be taken seriously, asked MPPs, when legislative approval for expenditures is given long after the money is gone?

Secondly, as the end of the session approaches, the backlogging of Estimates forces committees to accelerate their reviews of outstanding ministries. Consequently, some receive only cursory reviews, and others do not get debated in committee at all. For example, at the end of the last legislative session (February 12, 1987), Estimates not considered totalled in excess of $1.3 billion and included: Government Services, Revenue, Management Board, Tourism and Recreation, Citizenship and Culture, and Financial Institutions.

A fact acknowledged by members and of particular concern to the Office of the Provincial Auditor is that the time allotted to a particular set of Estimates is not representative of its financial significance. In other words, a disproportionate amount of time may be spent on a ministry with a small budget, with relatively little time allotted to a big-spending ministry. The 1986/87 schedule for ministry Estimates, for instance, assigned 16 hours to the Ministry of Education and 18 hours to the Ministry of Labour. Education's budget exceeds $3 billion, while Labour's is under $100 million.

Generally speaking, the total number of hours assigned to Estimates is not sufficient to allow meaningful review of the full range of government spending. At the same time, by trying to cover all government programs and activities, members spend much of their time debating Estimates. Given the myriad of other duties assigned to them, MPPs are hard pressed to prepare for and to properly examine any government expenditures. "We have neither the time nor the staff to do the job properly," was one member's comment.

The timing and the relevance of legislative approval of the Budget was also brought into the discussion. It was suggested that the Legislature would be better served if the Budget were prepared prior to the April 1st commencement of the fiscal year (say in December) rather than, as has been the case in recent years, in May.

It was also proposed that the Budget should be voted on soon after its introduction to the House, not many months later. As one MPP said, "By the time we get around to vote, everyone has forgotten what the original Budget was. How can this inspire confidence in the public mind about our accountability to them?"

Lastly, the traditional manner of voting on the Budget and on the Estimates was criticized. As members pointed out, non-approval of any part of the Budget automatically becomes a motion of non-confidence in the Government. Further, "If we vote to reduce an amount in the Estimates, it is also in effect a vote of non-confidence." Therefore, in another member's words, "Voting on the Budget is a political move. It has little to do with financial accountability."

Members agreed that the drawn-out budget debate, the inability to vote against individual items in the Budget, together with the practice of voting on Estimates late in the fiscal year, weakens the Legislature's control and detracts from a backbencher's feeling that he or she has input in the working of government. In one MPP's words, "All we're doing is playing around with the principles of democracy and accountability."

Attitudinal Problems

The 1985 report of the Standing Committee on Procedural Affairs and Agencies, Boards and Commissions noted that members tend to use the time reserved for Estimates review in either broad policy discussions, or in bringing up constituency matters. A decade earlier, the Ontario Commission on the Legislature referred to the latter as the "constituency syndrome"- the attitude that a member's first priority is to look after his or her "caseload" rather than to be a legislator scrutinizing government spending.

A number of other reports have made similar observations regarding the lack of attention and commitment by elected members to the content of the Estimates.

Members acknowledged that there is widespread disillusionment about the effectiveness of the Estimates process. At the same time, it was conceded that financial scrutiny is less of a priority to MPPs than their political legislative responsibilities. Consequently, the tendency during Estimates debates is to dwell on constituency matters or to engage in general discussions on Government policy.

It was further pointed out that the media plays an important role in legislative activities. Reporters seldom, if ever, show up at Estimates debates. This has a direct effect on the interest members take in the process. "The House is a political theatre in which members perform. If there is no audience, there's not a lot of interest in performing."

Despite the above, many members of the Legislature want to take the expenditure scrutiny function seriously. It was evident during our discussions that these MPPs are frustrated by the type of information provided in the Estimates books. "We can't get at the root of things," was a typical complaint. One MPP commented, "Even chartered accountants couldn't do a proper analysis from the Estimates books." Another said looking at the Estimates information is like "being given a phone book".

Ministries do supply opposition critics with additional briefing material prior to Estimates debates. Members reported that the information provided in this way varies from ministry to ministry and may or may not be of use.

The general view was that elected members have neither the knowledge, the time, nor the resources to seriously examine government expenditures or to ask incisive questions during Estimates review in committees.

Improvements to the Estimates Process

The procedural and attitudinal problems associated with Estimates review give weight to the warning of the 1979 federal study on financial management and accountability (the Lambert Report) that, "... the principles of responsible government, while still generally accepted, are in danger of becoming irrelevant to the actual situation."

The Lambert Report concluded that in order to improve the scrutiny of public expenditures, the following improvements were needed: upgrading of the information available to members; changed attitudes among participants in the Estimates process; adapting new ways to make the review and approval process more productive and meaningful.

Initiatives to improve the Estimates process in Ontario have been proposed, but to date implementation has been negligible.

In its 1980 report, the Standing Committee on Procedural Affairs recommended the appointment of a Finance and Economic Affairs Committee, to which all Estimates would be referred. The report suggested that the Committee concentrate on only a few sets of Estimates each year, limiting its scrutiny of most ministry expenditures to only certain significant votes and items.

Noting that members spend too little time debating actual dollar amounts, the report emphasized that, to be effective, the Committee would have to focus on the financial, not the policy component of Estimates. The report also proposed that the Committee's mandate include an overall review of Ontario's fiscal and economic policies.

The Committee's recommendations were not acted upon and they were brought up again by the Committee in its November, 1985 Report on Standing Orders and Procedure. At this time, in addition to the previous suggestions, it was more specifically proposed that each party select two (therefore six in total) Estimates to be be examined in detail and that these be later reported back to the House.

A month earlier, in October of 1985, the Treasurer of Ontario had issued a discussion paper entitled "Reforming the Budget Process". It suggested establishing an Economic and Fiscal Affairs Committee which, while primarily concerned with improving the budget process, would also consider reform of Estimates and Budget debate procedures.

Echoing the concepts proposed by the Committee on Procedural Affairs, the discussion paper noted that a way of reforming the Estimates process would be to limit legislative debate on expenditure to four or five ministries per year.

It also mentioned the need to improve the presentation of Estimates, suggesting that information such as growth rates, interim expenditures for the previous year, and a brief explanation of the programs and funding by particular item might assist members in their consideration of government spending.

On April 28, 1986, a Standing Committee on Finance and Economic Affairs was established, with a mandate to consider and report to the House its observations, opinions and recommendations on the fiscal and economic policies of the Government.

To date, this Committee has taken no initiatives relating to the Estimates process.

Conclusions and Recommendations

In discussing ways of improving the Estimates process, members reflected that government has become so large and complex that it is unrealistic to expect the Legislature to review all expenditures. They liked the idea of a specialist committee examining a selected number of Estimates. All stressed that the committee would need adequate research staff to analyze expenditure information and brief members.

In general, the path to improved accountability was seen to lie in the establishment of a committee (or committees) with stable membership who could develop expertise in financial issues, with qualified

non-partisan research staff, and with sufficient resources to take an in-depth look into Government financial plans. Such a committee, it was agreed, would come much closer than present estimates committees in exacting a true accounting from ministers and government managers.

We support the view that the key to the Legislature assuming more effective control of financial accountability is a revised committee system. We recommend that a committee, such as was suggested in 1980 and 1985 by the Procedural Affairs Committee (now the Standing Committee on the Legislative Assembly) be established to review a selected number of Estimates.

We further suggest that the Committee coordinate its work with that of the Standing Committee on Public Accounts and the Office of the Provincial Auditor. For example, in a given fiscal year, the proposed expenditures of certain ministries would be reviewed and approved by the newly formed committee. Later, the actual expenditures of the same ministries would be audited by the Provincial Auditor and commented on in the Auditor's Annual Report to the Legislature. These comments would be subsequently examined by the Standing Committee on Public Accounts.

We believe it is in the interest of the Standing Committee on Public Accounts to play a lead role in campaigning for reform in this area. The Public Accounts Committee's function, which is to critically appraise how the Government actually spends its resources, could be made more effective by the presence of a meaningful review at the front end, in other words, at the point at which the Government proposes to spend its resources.

CHAPTER 3
COMMENTS ON GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS

3.1 Introduction

Most of the comments contained in this segment of the Report pertain to audit observations and recommendations resulting from government-wide reviews. A list of all reviews completed during the year is included in Exhibit 4.

3.2 Tax Expenditures - Meaning and Magnitude

For purposes of discussion it is beneficial to distinguish between direct expenditure and tax expenditure.

Direct Expenditure

Moneys spent by the government to purchase goods and services, pay salaries, make grants, or pay subsidies directly to individuals and organizations in the private sector, are recorded as direct expenditures of the Province. These expenditures are debated and approved by the Legislature and are accounted for in the Public Accounts of the Province.

Tax Expenditure

Special tax provisions, such as reduced tax rates, special exemptions and deductions, are included in the tax system. These are designed to provide selective tax relief to encourage certain types of activity (such as savings for retirement, donations to charity), or to help specific groups or individuals (such as the Ontario property tax and sales tax credits program for qualified individuals).

These special tax provisions are used as a vehicle to implement economic or social policies. The result is a waiver of revenue by the government. Such waivers are, in effect, government expenditure through the tax system, or "tax expenditure". Tax expenditures are generally introduced in the annual Budget as proposed changes but are not included as expenditures in the annual Estimates. If a new tax expenditure program involves a change in legislation, the legislation is debated and approved (or amended) by the Legislature. On the other hand, if a proposed tax expenditure does not involve a change in legislation, such as a change in the regulations relating to an exemption/exclusion in the retail sales tax base, no legislative approval is required.

The main attraction of tax expenditures is that they cost less to administer than other forms of benefits, especially when there is a large number of recipients.

The Public Accounts of the Province do not disclose the revenue foregone due to tax expenditures.

Issues/Concerns Related to Tax Expenditures

Public concern over the growth of direct expenditures of federal and provincial governments has resulted in increased interest in the extent of accountability exercised in direct expenditure programs. Detailed information on direct expenditure is provided to legislators in the Budget/Estimates, which are reviewed and debated by the members before approval is given.

There are concerns that tax expenditures are not subjected to the same accountability control as direct expenditure programs. The issues include:

- The total amount of tax revenue foregone due to a special tax provision is difficult to estimate or may be larger or smaller than anticipated, as it depends on how taxpayers respond to the potential benefits.

- There is no formal accounting for the costs of tax expenditure programs, or ongoing monitoring and assessment of whether the objectives of the programs are being accomplished.

- Ceilings on government spending in particular program areas could be circumvented by switching from direct expenditure to tax expenditure programs.

- There also exists a possibility that once adopted, tax expenditures may become firmly embedded and rarely examined.

Ontario's Discussion Paper on Tax Expenditure

As part of the 1986 Budget, released May 13, 1986, the Treasurer tabled a discussion paper dealing with "Ontario Tax Expenditures".

The purpose of this discussion paper was "to facilitate informed public discussion". The paper provides basic information and where available, cost estimates of the more significant tax expenditure programs in which the Province is involved.

Aggregation of Costs

The discussion paper did not attempt to identify and provide an estimate on the aggregate cost of those tax expenditures related to specific programs or policy areas. It also cautioned against adding up individual cost estimates to arrive at a grand total. It took the position that there is "no way of estimating the true aggregate cost of these measures, . . . such an exercise is also unrealistic because it is inevitable that there would be other policy adjustments aimed at keeping tax burdens roughly unchanged".

We believe that while aggregation of estimated tax expenditures may well be an imperfect and at times misleading measure, such aggregation is helpful in portraying the magnitude and overall significance of tax expenditures in the Province's financial picture. In this regard, annual tax expenditures are in excess of $7 billion. Direct expenditures for the 1987 fiscal year totalled $32 billion.

Tax Expenditure by Categories

The discussion paper identifies and lists a variety of tax reliefs under three categories of taxes: personal, corporate, and retail sales.

Personal Income Tax

Deductions or exemptions provided for in the personal income tax structure give rise to tax expenditures of approximately $4.5 billion annually in Ontario.

- Basic personal exemption
- Married exemption
- Registered retirement savings plan contributions
- Employment expense deduction
- Ontario Property and Sales Tax Credits

All but three of the tax relief programs under the personal income tax category are initiated by the federal government. Ontario is involved in these tax relief programs under the Federal-Provincial Tax Collection Agreement. Ontario's three programs, the Ontario Tax Reduction for individuals with low taxable income, the Ontario Tax Credits and the Ontario Political Contribution Tax Credit, aggregate to about $300 million annually.

Corporate Taxes

Tax relief measures in the Provincial corporate tax structure result in tax expenditures of more than $500 million a year in Ontario. Some of the more significant measures include:

- non-taxable portion of capital gains;
- small business deductions for eligible Canadian-controlled private corporations; and
- flat capital tax for small business, under which an eligible corporation pays a flat $50 instead of the regular capital tax liability.

Ontario collects and administers its own corporate income tax. In general, the Province parallels federal corporate income tax policies. All corporate tax expenditures in Ontario are the result of Provincial Government policy decisions.

Retail Sales Tax

Not all goods and services are subject to retail sales tax. Those exempted result in tax expenditures of approximately $2.7 billion annually in Ontario. The more significant exemptions include:

- groceries;
- production machinery and equipment;
- electricity, natural gas, heating oil and propane;
- insurance premiums; and
- advertising services.

Since the policy and administration of retail sales tax falls under the jurisdiction of the Provincial Government, tax expenditures in this category are solely the result of Provincial Government decisions.

Tax Remissions in Ontario

Tax remission is the waiver or forgiveness of taxes, interest and penalties imposed by any Act of the Legislature.

The Ontario Government does not consider tax remissions to be tax expenditures. Accordingly, they were excluded from the "Ontario Tax Expenditures" discussion paper.

However, since tax remission is a waiver of revenue by the Government, we believe it would be useful to provide some background information on this subject.

Tax remissions are initiated by the Ministry of Revenue under authority of the Ministry of Revenue Act, the Income Tax Act, and the Corporations Tax Act.

Remissions granted under Section 8 of the Ministry of Revenue Act require an Order-in-Council, and for amounts of $1,000 or more, the names of the recipients and amounts granted are reported in the Public Accounts as supplementary information. Remissions granted under this Act relate to taxes such as land transfer tax, gasoline tax, retail sales tax and provincial land tax.

Remissions under Section 28 of the Income Tax Act and Section 97 of the Corporations Tax Act are made at the discretion of the Minister of Revenue and the amounts are not included in the Public Accounts.

Remissions made under these three Acts totalled $9 million in the 1987 fiscal year.

3.3 Observations on the Government Payments System for Goods and Services

Payment for goods and services by the government is centralized in the Ministry of Government Services. This system processes payments for 44 ministries and various agencies. The Ministry of Treasury and Economics records the payments using the Central Accounts System.

For the 1987 fiscal year the Province's total expenditures for goods and services totalled approximately $1.9 billion.

SUMMARY

SCOPE AND OBJECTIVES

In conducting our audit of the government payments system for goods and services, our objectives were to assess the adequacy of:

- internal controls over payments and whether government policies and procedures were being followed;
- EDP procedures to ensure timely and correct payments for goods and services; and
- protection against unauthorized access to/alteration of computer program and data files.

Comments on Government-Wide Matters and Special Reviews

CONCLUSIONS AND FINDINGS

INTERNAL CONTROLS AND ADHERENCE TO POLICIES

We found that internal controls were good and the system, in all material respects, was operating in accordance with government policies and procedures.

EDP PROCEDURES TO ENSURE TIMELY AND CORRECT PAYMENT

EDP procedures were adequate to ensure that accounts were correctly paid in a timely manner. However, we noted two areas of concern:

- **Cheques could have been produced without a payee name.**
- **There was inadequate segregation of duties.**

PROTECTION AGAINST UNAUTHORIZED ACCESS /ALTERATION

The protection of computer programs and data files was weak in the following areas:

- **Many critical files that were part of the overall cheque production systems were not protected against unauthorized access.**
- **The controls to ensure that only authorized changes were made to computer programs were inadequate.**

COMMENTARY

Background

Invoices for goods and services are processed by each ministry or agency and a payment data file is created. This file, together with a requisition for payment, forms part of the Treasury Payment Control System, a subsystem of the Central Accounts System.

The Treasury Payment Control System aggregates these payment data files, validates the content against payment requisitions and produces output files authorizing Ministry of Government Services to prepare cheques. These cheques are then normally mailed directly to the suppliers.

EDP PROCEDURES TO ENSURE TIMELY AND CORRECT PAYMENT

Our review of individual controls and compliance with the written procedures for the various stages of data processing led us to the overall conclusion **that collectively the network of controls was functioning properly and was adequate to ensure that the accounts were being correctly paid in a timely manner.**

We also examined the procedures for backing up the computer programs and various production files that would be used in the event of a serious computer malfunction or a computing centre disaster (fire, flood, etc.). The backup procedures were good and were being complied with. A contingency plan has been written and one major system is selected annually for testing.

Cheque Produced without a Payee Name

To ensure the accuracy and completeness of the data processing in the Treasury Payment Control System, we conducted 31 tests on 19 fields of data and only one exception was found. A payment was submitted by a ministry where the payee's name field consisted of a dot and a cheque was produced without a named payee. This could have allowed a person to insert a fictitious name and fraudulently cash the cheque.

Examination of the computer program showed that the "payee validation check" only rejected payments if the payee name was blank. Any single character such as a dot, dash, asterisk, etc., would have been acceptable to the system and a cheque produced.

We recommended that the "payee validation check" be rewritten to a more rigorous standard.

Inadequate Segregation of Duties

Segregation of duties is a key control feature of any accounting activity. The proper functioning of this control relies on the principle that where practical, no one individual should have responsibility for a complete cycle of procedures. **During our review we observed that one individual was responsible for operating the entire Treasury Payment Control System.**

The opportunity was present to add or change data being input to the computer e.g. payee name, cheque amount, etc. Because most cheques were not returned to the originating ministry or agency, but mailed directly to the suppliers, any irregularities would not have been discovered until after the fact.

We recommended that the duties be realigned to minimize the opportunity for data tampering.

PROTECTION AGAINST UNAUTHORIZED ACCESS/ALTERATION

Critical Production Files Were Unprotected

A security protection product called Resource Access Control Facility has been installed at the Queen's Park Computer Centre. If used properly, this Facility can control access to computer data and what can be done with it.

We tested 17 payment input files and found that only one user had protected them against unauthorized access. Consequently, there were no controls to prevent a person from changing the payee or cheque amount on the input data. Cheques that exceed $200,000 were subjected to more rigorous controls. However, there were many cheques issued just below this threshold amount where the payee name could have been changed.

We recommended that all of the payment input data files be protected upon their creation and that processing personnel be allowed "read only" access to them.

We found that the various files created by the Treasury Payment Control System including output files for cheque production were all properly protected.

Inadequate Controls over Changes to Computer Programs

The controls in place over program changes did not adequately ensure that only authorized changes were made to the production computer programs. Procedures required that a work request be initiated for all computer program changes.

Management informed us that there had been no changes made to the Central Accounts System or any of its subsystems during the last twelve months. **However, we identified 65 out of 222 production programs that had been changed during the last 12 months for which there was no corresponding work request authorizing any of these changes.**

A Management Board of Cabinet directive requires that authorization and test documents be made available, on request, to the Office of the Provincial Auditor. Documentation supporting these program changes was not available for our review.

The risks associated with allowing unauthorized changes to a computer program vary from the intentional insertion of specific process instructions, to the accidental bypassing of a control.

In the case of the Treasury Payment Control System there were compensating controls such as user review and reconciliation of cheques issued and enquiries from suppliers concerning non-receipt of payments. However, these controls were "after the fact" since cheques were mailed directly to the suppliers.

Although we did not find any evidence of wrongdoing the potential risk due to non-compliance with procedures is significant.

We also observed that production versions of programs were accessed, changed and returned to production by the programmers rather than by an independent librarian.

One of the controls needed to protect a computer system from unauthorized changes is to prevent the programs that are in use from being accessed by the programmers who develop or revise them. This is traditionally done by segregating the duties of personnel or restricting access to the programs. Management stated that with a small informal shop the segregation of duties in the systems area is a luxury.

We recommended that the programmers' access to production programs be restricted.

RESPONSE

The Deputy Minister of the Ministry of Treasury and Economics responded to our comments on May 29, 1987."

GENERAL

The Deputy Minister noted the positive comments on the general adequacy of EDP procedures and controls, back-up, and contingency planning. He also stated that:

"The Office of the Treasury has a high interest that the government's payment processes, including the E.D.P. systems involved, are properly controlled and payment files and programs are adequately protected."

EDP PROCEDURES TO ENSURE TIMELY AND CORRECT PAYMENT

Cheque Produced without a Payee Name

"The 'payee validation check' has been rewritten as recommended."

Inadequate Segregation of Duties

"Following the audit, security has been enhanced by ensuring ministries' data is protected by the Resource Access Control Facility (RACF) to allow 'read only' to Treasury staff. Together with existing controls, this obviates the need for realignment of duties."

PROTECTION AGAINST UNAUTHORIZED ACCESS/ALTERATION

Critical Production Files Were Unprotected

"The files referred to are those produced by ministries. All ministries have been instructed to protect their data by RACF and to restrict access so that records may be read but not changed."

Inadequate Controls over Changes to Computer Programs

"Work requests will be raised for all computer changes required and the systems manager and Central Accounts Unit supervisor will verify tests and maintain records of program changes.

"Programmers will now only have access to development programs, and access to production programs will be controlled by the RACF administrator."

3.4 Improvements Needed, Ministry Internal Audit Operations

The internal audit community of the government of Ontario consists of 21 audit branches providing audit services to 26 government ministries and some related agencies. In the 1988 fiscal year, internal audit will employ approximately 360 staff with estimated expenditures of $21 million.

Comments on Government-Wide Matters and Special Reviews

SUMMARY

SCOPE AND OBJECTIVES

Our objectives were to determine:

- the progress made in addressing the deficiencies noted in our 1980 review of internal audit and included in our 1980 Annual Report; and
- whether the nature and quality of internal audit assignments would permit our Office to rely on the work performed.

Our review covered 15 of the 21 ministry internal audit branches, representing approximately 85 per cent of the staff and expenditures of the internal audit community.

CONCLUSIONS AND FINDINGS

PROGRESS SINCE PREVIOUS REVIEW

Approximately seven years had elapsed since our last review of internal audit. We found that significant improvements had taken place since then. Despite these improvements much remains to be done.

- **Most audit branches had clear, written and approved terms of reference which had been communicated throughout the ministry.**
- **Most audit branches had defined their audit universe and had developed one year and long-term audit plans. However, the number of audits actually completed was falling well short of plans.**
- **There had been a number of initiatives to upgrade the internal audit function, including the development of audit guides and audit related training courses. However, there is still a general need to upgrade basic auditing skills.**
- **Working paper files often did not comply with professional standards. It was often difficult or impossible to determine the nature and scope of the audit work performed.**
- **A systems based audit approach was generally not utilized.**
- **In a number of cases audit reports could be improved in terms of conciseness and the level of audit assurance communicated.**
- **A number of branches did not have an adequate system to effectively monitor and control staff time.**
- **In many instances the performance of audit staff was not evaluated on a regular basis. Where staff appraisals were completed, they frequently did not assess audit related performance criteria.**

OFFICE RELIANCE ON WORK PERFORMED

Based on our findings we generally would be unable to rely on the work of internal audit.

- **There were four branches (Ministries of Consumer and Commercial Relations, Education, Revenue and Treasury and Economics) where the work could generally be relied on.**

- **In the other branches the work could be relied on only in some instances. For example, we would be able to place reliance only on certain specific audit procedures and not on the audit as a whole.**

COMMENTARY

Background

The primary objective of internal audit is to provide assurance to the Deputy Minister and other senior ministry executives as to the integrity of financial accounting systems and the information they contain. Where systems of internal control are found to be deficient, internal audit is expected to make recommendations for their improvement. Auditors are also required to perform non-financial reviews. These include commenting on the economy and efficiency of ministry operations and the systems in place to measure effectiveness.

Although no direct reporting relationship exists, an effective audit function also provides assurance to central agencies, such as Management Board of Cabinet and the Ministry of Treasury and Economics. For example, the Ministry of Treasury and Economics relies on internal audit to determine whether ministries are complying with their financial administration responsibilities as outlined in the Manual of the Office of the Treasury.

The roles of our Office and internal audit are somewhat different in that we report to the Legislature while internal audit serves and is accountable to the management of their ministries. However, if the Office of the Provincial Auditor could rely on internal audit, duplication of effort would be eliminated. This would allow our Office to reduce the scope and extent of our work and scarce audit resources could be directed to other areas. In order for our Office to rely on internal audit, the work must meet accepted professional standards.

Because we have a number of mutual interests, a liaison committee was established in 1986 with representatives from the internal audit community and our Office. The issue of reliance on the work of internal auditors by our Office is a prime concern of this committee.

Review Approach

The review of each internal audit branch started with a meeting with the internal audit director. We provided each director with a list of our audit objectives and the criteria we would be using to assess the branch's performance.

To ensure that we had obtained a complete picture of internal audit activity, we also had discussions with and obtained information from the Chairman of the Ontario Public Service Internal Auditors' Council, as well as Management Board's Audit Advisors. We also met with a number of senior executives to whom the ministry internal audit functions report.

Terms of Reference/Organizational Status

Our review indicated that most ministries have clearly written terms of reference which outline the role of internal audit, the scope and frequency of internal audit activity and reporting requirements.

We noted that all but two of the ministries had an active audit committee. However, in these two ministries the directors of internal audit reported directly to the Deputy Minister, thus preserving their organizational independence.

The majority of audit committees were chaired by Deputy Ministers and were comprised mainly of senior ministry officials. Our review of minutes of their meetings indicated that the committees had taken an active interest and played an important role in the internal audit process.

Audit Planning Process

Audit Universe and Priorities

While audit branches generally maintain complete audit universe listings, two of the audit branches reviewed did not.

We noted that certain major transfer payment recipients, which in some cases account for a significant amount of total ministry expenditures, have not been included in the audit universes. Examples of these are universities, community colleges, public and private hospitals. The role that internal audit should play in providing assurances to ministries with respect to these transfer payments is still to be resolved.

Our review indicated that seven audit branches had formal documented systems in place to rank the components in the audit universe in order of priority. The rankings were based on established criteria such as risk, past problems, etc. These were then used to assign frequencies to develop audit plans.

While the remaining audit branches did not have formally documented ranking systems or criteria in place, we were informed that applicable criteria were used in the preparation of audit plans. Documentation of such systems would make the audit planning process more complete.

With respect to value for money and EDP auditing, while much progress has been made in these areas at a number of branches, some branches are only now venturing into these areas. We hope that all branches treat these as a high priority.

Annual and Long-Term Plans

With the exception of two ministries, all audit branches had long-term audit plans. In addition, all branches had annual audit plans. Many of the plans were well designed and prepared.

Both annual and long-term audit plans are submitted to the Deputy Minister and/or the audit committee for review and comment.

Planned coverage of the audit universe in the audit branches reviewed varied from four to eight years. However, in some instances staffing requirements to accomplish the plans far exceeded the available resources. For example, in one ministry the staffing requirements for the four year audit plan were estimated at 6,110 workdays whereas available resources, based on current staffing, totalled only 3,440 workdays.

We found that in many ministries there was a trend of actual audits completed falling significantly short of plan. Only four of the ministries reviewed were able to substantially complete their annual audit plans. In the remaining ministries, there were many instances where actual audit cycles exceed 10 years. The most glaring example we noted was one ministry which had performed only two audits in the three years prior to our review.

Common reasons at ministries for not meeting audit plans included:

- actual time required to complete individual audit assignments was frequently significantly higher than planned;
- staff resources were required for unscheduled audits or special requests; and
- appropriate staff, particularly for Comprehensive and EDP assignments, were not always available.

We felt that decisions needed to be made as to whether this trend was acceptable. If considered unacceptable, a review of staffing levels in internal audit branches needs to be undertaken by individual ministries and/or Management Board.

We noted that audit branches prepare, at least annually, summary status reports of work completed or in progress. These are reviewed by the Deputy Minister and/or the audit committee. However, actual versus planned performance regarding individual assignments was often not analyzed.

Professional Resources and Training

Qualifications and Experience

Successful completion of formal training in auditing is normally evidenced by the completion of courses leading to a professional accounting or auditing designation. **Of the 15 ministries reviewed, 103 out of 295, or 35 per cent of the audit staff held professional accounting designations while another 37 staff members were enrolled in various stages of accounting programs.**

While the overall percentage of individuals with designations was reasonable, this percentage varied significantly from ministry to ministry and was quite low in some cases.

With the increased emphasis on value for money and EDP auditing, the qualifications and experience of internal auditors need not be only accounting based. We noted that a number of internal auditors were Certified Internal Auditors, professional engineers, EDP specialists, lawyers, etc.

A high percentage of internal auditors had extensive audit experience. For example, of the 295 auditors in the branches we reviewed, 98 had more than 10 years of auditing experience with their respective ministries.

Professional Development

In 1983, a staff development program for internal auditors was developed through a project sponsored by the Civil Service Commission in co-operation with the Ontario Public Service Internal Auditors' Council.

We found that the training programs developed and listed in the Staff Development Program Manual were comprehensive and would be useful in providing training for auditors at all levels.

The level of professional development provided to individual auditors varied significantly not only between the various internal audit branches but often within the branches themselves. In many instances, the audit branches lacked systematic procedures to identify the training needs of individuals.

Many auditors had attended a wide variety of professional training courses. While we noted the recent emphasis on value for money and EDP audit related skills, we questioned the degree of benefits resulting from these courses. Considering the many working paper file deficiencies noted during our review, there was a widespread need to upgrade the quality of work produced. **We felt that increased emphasis should be placed on providing staff with training in basic auditing skills.**

It is interesting to note that one of the courses available to internal auditors addresses many of the working paper deficiencies noted during our review. This course entitled, "A Self Study Course on Internal Audit Working Papers" covers areas such as the fundamentals of preparing good working papers, and the need to state audit objectives and conclusions for work performed. However, it appeared that limited use was made of this material.

Motivation

We were concerned by the lack of a correlation between the training, experience and level of continuing professional development of individuals and the quality of work. **Consequently we could only conclude that a significant factor affecting on the job performance was the low motivation of many individuals.** Factors which in our opinion adversely affect the motivation and hence the work of internal auditors are:

- inadequate supervision and review of the audit process and the resultant working papers;

- lack of incentive for staff members who have been in the same position for a number of years. Many of these individuals see little opportunity for promotion within internal audit and only limited possibilities to transfer out; and

- inability to reward good performance where there is no room for promotion and employees are at the maximum of their salary ranges. Similarly, there is an inability or lack of willingness to penalize individuals not performing up to acceptable standards

Working Papers

We reviewed a representative sample of the working paper files of branch audit assignments which were, in most cases, completed within the last two years.

The quality of the working paper files reviewed varied between ministries and to some extent within ministries. Although our comments do not apply to every file reviewed by us, the following were some commonly noted deficiencies:

- No evidence of audit planning or input by senior members of the internal audit branch in determining the objective, nature and extent of the work to be performed on the assignment.

  To ensure that the audit approach represents an efficient and effective deployment of resources, the director and/or audit managers should participate actively in the audit planning process and approve the planning memorandum.

- In a number of instances no audit programs were on file to indicate what work was to be undertaken. **This made it difficult or impossible to relate the work done to the objectives of the audit.** Where audit programs were on file:

  . Many were of a general nature making it difficult to determine the nature and scope of the work intended.

  . Many were not signed off by the auditor performing the work or referenced to the supporting working papers, making it difficult to determine to what extent the programs had been completed.

- Many of the files contained lengthy narratives or what appeared to be notes from discussions with auditee staff. Without any stated objectives, indications as to the source of the information or stated findings and conclusions, it was often not possible to determine the purpose or the result of this documentation.

- Where a sample of transactions was selected for testing, the source and basis of selection was often not stated.

- There was frequently no evidence that the working paper files had been reviewed by senior staff members of the branch.

Before the work of an internal audit branch can be relied on by our Office, these deficiencies need to be corrected.

While we acknowledged that some resources would be required to improve file quality, we did not feel that there should be a significant decrease in output as a result. In fact, implementing some of our recommendations, such as an adequately documented planning process and systems based auditing, could result in a more efficient utilization of resources.

The majority of audit directors agreed with the need to correct these and other working paper deficiencies which we noted. In fact some had a number of these addressed in their own audit manuals.

Systems Based Auditing

Internal audit branches generally did not use a systems based audit approach for financial audits which is a requirement of internal auditing standards and the Manual of the Office of the Treasury. While in many instances working paper files included systems flowcharts and/or narrative systems descriptions, there was no indication of how these were utilized on the audit. For example, there was no evidence that they were used to identify internal control strengths and weaknesses.

Wherever practical, internal audit should adopt a systems based audit approach which documents the systems being audited and evaluates the systems with a view to identifying:

- internal control weaknesses; and
- key controls, the testing of which would provide audit assurance that they were working as intended.

To ensure maximum audit efficiency, detailed audit procedures should then be tailored to address any internal control deficiencies identified during the initial evaluation.

Systems based audits can be more efficient and effective and the conclusions reached more useful to management. Adoption of an effective systems based audit approach would reduce the number of individual transactions that need to be reviewed.

Communication/Reporting

The audit report is the culmination of all the effort expended during the audit process. Ideally, the auditor's findings and conclusions alert management to areas in need of improvement as well as provide assurance with respect to well-functioning and controlled activities.

A number of reports reviewed included neither the audit objectives nor the conclusions. In some cases where audit objectives were stated, it was difficult to determine what conclusions were reached.

Our review of audit reports indicated that substantial effort had been expended in their preparation. However, in a number of instances the content of reports was neither clear nor concise. For example, we noted instances where reports contained much descriptive information and relatively minor findings. This detracted from the more significant items in the report.

A number of audit branches did not prepare annual summary reports outlining major findings and significant unresolved recommendations for the Deputy Minister, as required by the Manual of the Office of the Treasury. This type of summary is useful when assessing the results achieved by the audit process.

Time Accounting

The efficient allocation and utilization of staff is a significant determinant of branch effectiveness. Relevant information in this regard is normally maintained on a branch-wide time accounting system.

An adequate time accounting system will aid management in preparing future audit plans by maintaining historical records of time spent on assignments. It can also assist in evaluating the efficiency of individual staff members.

While all branches compiled summaries of time spent in varying forms, we found that:

- **Many did not prepare detailed time budgets by phase of individual audit assignments.**

- **With few exceptions, branches did not accumulate actual audit time in detail, nor were variances between planned and actual times calculated and explained either in total or by phase of individual assignments.**

Management of the Internal Audit Function

Staff Performance Appraisals

A comprehensive and objective staff evaluation process is an integral part of developing and maintaining the efficiency and effectiveness of audit staff.

We found that many of the audit branches did not have a satisfactory evaluation process in place.

- A number of branches had not compiled staff evaluations for some or all of their staff in over two years.

- Several branches did not use a standardized employee appraisal form. As a result, evaluations for similar staff within the same branch often varied with respect to the criteria and standards used.

- **Where standard evaluation forms were used, they were in most instances ministry-wide evaluation forms. Since these forms were usually not audit related few of the evaluation criteria were applicable to internal auditors.**

- Many of the evaluations contained few specific comments as to the strengths and weaknesses of audit staff and did not suggest courses of action for improvement.

Concluding Remarks

In discussing the results of our audit with the directors of internal audit we found that, with few exceptions, they were generally in agreement with our conclusions and recommendations. In many cases where we noted deficiencies, they were already aware of or suspected the need for improvement and assured us that corrective action would be taken.

We recognized that all of the necessary changes could not be made immediately. However, given the apparent commitment from senior staff in most branches, we felt that over time, the necessary improvements in the quality of the work produced would occur.

We found that the officials to whom directors of internal audit report understood and appreciated the role of internal audit. However, while approximately half were pleased with their internal audit branches and felt that they were effective, the remainder were not totally satisfied with the quality and effectiveness of internal audit in their ministries. The concerns expressed related to the quality of reports and recommendations contained therein, lack of EDP systems audit capability and not enough time spent on value for money auditing. We were informed that action is being taken to correct these deficiencies.

RESPONSE

The Secretary of the Management Board of Cabinet provided the following reply.

"We are pleased to note the considerable progress that you report in the operations of internal audit branches since 1980. Both ministries and the Management Board are determined to build on this progress to further advance internal auditing in the Ontario public service.

"Working in close cooperation with the internal audit community and other central agencies, the Management Board Secretariat has developed and issued a framework of recommended management and professional practices for internal auditing. The framework comprises an audit policy, a manager's guide to internal auditing, methodology for conducting audits and, issued through the Ontario Public Service Internal Auditors' Council, standards for professional practice.

"The recommended practices set out in these documents, which closely accord with the criteria that you have used in your review of internal audit, provide an excellent reference for the effective management of the internal audit function.

"Based on your findings, we intend to re-emphasize to ministries certain aspects of our policy and guidelines.

"You will be interested to know that as part of our continuing program to improve internal auditing, we are taking the following action:

1. Issue a directive on transfer payments accountability and a companion guideline that will provide the basis for the auditing of transfer payments.

2. Issue a value-for-money auditing reference handbook that updates and improves earlier value-for-money auditing guides.

3. Continue to review the need for additional audit staff resources.

"Many of your observations dealt with the management of professional resources in the audit community. We intend to re-emphasize the assistance available to the internal audit community from the Human Resources Secretariat in staff development, time management, performance evaluation and other areas.

"In the brief time that we have had to review your report, we have discussed your findings with a number of internal audit directors. The directors expressed a number of concerns about the audit. These include:

- that the standards applied to working papers were not entirely appropriate for internal audit; for example, less rigid standards may be needed to accommodate the participation of non-audit personnel in value-for-money auditing.

- that the audit did not give sufficient emphasis to the results of internal audit recommendations.

"However, since many of these items are ministry-specific, I have suggested to deputy ministers that they should discuss any concerns that they may have directly with your office.

"We share your belief that over time, the necessary improvements in the quality of work produced will occur and we will continue to work with line ministries to achieve this objective."

3.5 Observations Regarding the Use of Chartered and Government Passenger Aircraft

Ministry staff travelling by air on government business may use either commercial airlines, chartered planes or government passenger aircraft.

All non-commercial air transportation required by ministries is obtained through a central common service, administered by the Ministry of Natural Resources (MNR). Upon receiving a request, the Ministry either supplies government-owned aircraft or arranges for chartered aircraft. At the time of our review, the Province owned four passenger aircraft (two King Airs, one Twin Otter and one Turbo Beaver).

SUMMARY

SCOPE AND OBJECTIVES

Our audit examined 70 flights (42 on government aircraft and 28 on charters) representing 15 per cent of the total flights taken between April 1984 and January 1986 by the ministries of: Agriculture and Food, Intergovernmental Affairs, Natural Resources and Northern Development and Mines.

Our objectives were to assess:

- whether cost was considered before a decision was made to use chartered or government-owned aircraft; and

- whether chartered and government passenger aircraft were used in accordance with government policies and procedures.

CONCLUSIONS AND FINDINGS

From the standpoint of economy, commercial aircraft should be used, unless location, cost or other factors make it impractical to do so. The next travel option should be via government-owned aircraft, if available. Chartered aircraft, generally the most costly, should be a last resort.

We were satisfied that chartered and government passenger aircraft were used only when economical to do so.
On the other hand, we were unable to conclusively determine whether these aircraft had been used according to government guidelines. Specifically:

- **Records for many flights were inadequate or did not exist.**
- **Where information was available, it ranged from the documentation of irrelevant matters (detailed minutes of meetings attended) to rough notes which provided little information on the flights.**
- **Names of passengers were often unavailable. Where comparisons could be made, the number of passengers according to ministry records frequently did not agree with MNR journey logs.**

Modified Audit Scope

We had intended to also review a number of flights authorized by the Office of the Premier. However, we were informed that the Premier's Office would prefer not to provide us with the information, but would be willing to follow a process similar to one approved by the Standing Committee on Public Accounts in its 1973 Annual Report. The Premier at that time had agreed that "his schedules would be available as required every three months for Committee scrutiny".

In February 1975, the Committee reported that the Chairman and the Vice-Chairman had reviewed records at the Premier's Office and were "satisfied that the matter of the Premier's use of aircraft is properly recorded . . . " This procedure was not repeated subsequently.

In October 1986 the Public Accounts Committee agreed to reactivate a review procedure. Accordingly, a subcommittee consisting of members of all three political parties reviewed the Premier's travel records at an in-camera meeting (January 27, 1987) and found them to be satisfactory. It was decided that in future the subcommittee would review the Premier's travel records every six months.

RESPONSE

On September 9, 1987 the Secretary of the Management Board of Cabinet provided a coordinated response on behalf of the four ministries.

" Your recommendations are appreciated and accepted. They are an integral part of the recently issued policy and procedure on arranging for non-scheduled air transportation for government business."

The policy and procedure referred to was distributed to all deputy ministers by the Secretary of the Cabinet on August 10, 1987. In his covering memorandum the Secretary referred to recent changes in the policy and in particular to one change which "is to enhance documentation and record retention for flights." He also pointed out that "it is the responsibility of the user ministry to keep records which will explain the purpose of the flight, the destination and the names of the passengers travelling on all trips authorized by that ministry."

Auditor's Report for 1987

CHAPTER 4
COMMENTS ON MINISTRY AUDITS

4.1 Introduction

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ongoing ministry audits. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 5.

4.2 Good Administrative Procedures But Inadequate Effectiveness Indicators, Farm Interest Rate Reduction Program, Ministry of Agriculture and Food

The Ontario Family Farm Interest Rate Reduction Program provides grants to Ontario farmers to rebate part of the interest paid by them on farm debt.

The 1987 fiscal year expenditures for this program totalled $47.3 million (Vote 1604, Item 3).

SUMMARY

SCOPE AND OBJECTIVES

Our objectives for the audit of the Ontario Family Farm Interest Rate Reduction Program included an assessment of whether:

- adequate controls existed over the approval and payment of grants to farmers; and
- progress has been made by the Ministry in complying with Management Board of Cabinet's request to measure and report on the Program's effectiveness.

CONCLUSIONS AND FINDINGS

GRANT APPROVAL AND PAYMENT

Controls over the approval and payment of grants were adequate.

MEASURING EFFECTIVENESS

Very little progress had been made in developing appropriate indicators to measure and report on the effectiveness of the Program.

OTHER MATTER

Insufficient information was available on the extent of financial assistance available to individual farmers.

COMMENTARY

Background

The Ontario Family Farm Interest Rate Reduction Program was first established in August 1985. The objective of the Program is to provide interest rebate grants to Ontario farmers with high debt loads who operate viable or potentially viable farms.

Only farmers with loans having an interest rate greater than 8 per cent are eligible for assistance. The maximum interest rate reduction provided under this Program is 7 per cent. However, the interest rate actually paid by the farmer cannot be reduced below 8 per cent.

For the 1986 program year, qualifying farmers who had suffered crop losses due to adverse weather were eligible for an additional interest rebate of up to 8 per cent in certain circumstances. Depending on the loss, the actual interest paid by the farmer could be reduced to zero.

GRANT APPROVAL AND PAYMENT

Adequate Review and Payment Process

Based on our review of the applications processed and approved in the 1985 and 1986 program years, we concluded that this aspect of the Program was generally well administered. This was largely attributable to the good planning and training of staff involved in the applications review process.

MEASURING EFFECTIVENESS

Management Board Reporting Requirement on Effectiveness

Management Board of Cabinet requested that the Ministry monitor and measure the effectiveness of the Program as part of its Management by Results reports for the 1988 fiscal year.

Management Board did not make any further requests after reviewing the Ministry's planned results for the 1988 fiscal year. However, we felt that significant improvements were required, since the performance indicator used gave little useable information as to the effect on the farming community of the $95 million in interest rebate grants paid in the 1985 and 1986 program years.

For instance, the objective of the Program is "to provide interest rebates to viable Ontario farmers who had long-term debt in 1985". This objective statement did not address the key question as to why interest rebates are provided to Ontario farmers. Since the objective of this Program has not been translated into specific measurable goals, it would be difficult for policy makers such as legislators, to determine whether the program is worth its cost.

We acknowledged the difficulty of measuring the effectiveness of a program such as the Ontario Family Farm Interest Rate Reduction Program. However, we observed that several similar types of farm assistance programs including the Ontario Farm Adjustment Assistance Program do report some appropriate indicators of program effects.

OTHER MATTER

Lack of Information on the Extent of Financial Assistance

The Province of Ontario offers a total of 41 financial assistance programs to farmers while the Federal government supports an additional 22 programs. For the 1987 fiscal year, expenditures for

Provincial assistance provided to Ontario farmers totalled about $317 million. The six largest programs were:

Program	1987 Expenditures ($ millions)
Farm Tax Reduction	108.6
Farm Income Stabilization	49.5
Ontario Family Farm Interest Rate Reduction Program	47.3
Subsidy Payments to the Crop Insurance Fund	17.8
Farm Adjustment Assistance	16.3
Tobacco Producers Assistance	15.0
Total	254.5

The Ministry's client databases contained limited information on Ontario farmers enrolled in the various financial assistance programs. As a result, complete information on the extent of financial assistance provided to individual farmers was not available to the Ministry.

We randomly selected 20 farmers who had received benefits from the Ontario Family Farm Interest Rate Reduction Program and tested whether they had also received benefits from the Ministry's 14 largest financial assistance programs.

No. of Farmers	No. of Programs Providing Financial Assistance
2	11
2	10
2	9
3	8
6	7
3	6
2	5
20	

The results of our test confirmed that a wide variety of financial assistance was provided to farmers. We also observed a parallel in assistance offered to farmers by some programs. For example, under the 1986 Ontario Family Farm Interest Rate Reduction Program, adverse weather assistance in the form of an increased interest rebate was provided for certain crop losses. The Crop Insurance Program of the Ministry also provided financial assistance with weather risk insurance based on individual average farm yields. The latter Program was originally set up so that farmers could protect themselves against natural perils.

In our random selection of 20, we noted that 8 farmers who received additional interest rebates as a result of adverse weather damages, also received benefits under the Ministry's Crop Insurance Program.

We recommended that the Ministry's database be improved to include complete information on all of the financial assistance programs in which Ontario farmers are enrolled. We felt that this would be very useful to the Ministry in performing economic and financial analysis for policy development.

RESPONSE

The Deputy Minister responded to our report on the audit on October 15, 1987.

MEASURING EFFECTIVENESS

Management Board Reporting Requirement on Effectiveness

"The Auditor notes that the MBR performance indicator, total amount of interest rebates paid, does not adequately address how well program objectives have been achieved. As the program's stated goal is to reduce the interest burden and to provide a breathing space for viable farmers which under normal circumstances can earn their family living from farming, the amount of interest rate relief delivered to the target group is an appropriate measure of effectiveness. It is difficult to isolate the effect of the interest relief on the well-being of the target group. One possible proxy measure that will be used in the future is the percentage increase in net farm income that was effected by the interest grant.

"Studies which are longer term in nature and which do not lend themselves to annual MBR analysis are being investigated. For example, the University of Guelph has undertaken a study which shows the potential 10 year effect of the OFFIRR (Ontario Family Farm Interest Rate Reduction) grant when used for debt reduction on the balance sheet of a sample of farmers."

OTHER MATTER

Lack of Information on the Extent of Financial Assistance

"The Auditor noted that a number of farmers who received OFFIRR also received assistance under a number of other programs. It was further noted that some farmers enrolled in the Crop Insurance Program also received assistance under the adverse weather component of OFFIRR. It is implied that this could be avoided if a comprehensive data system were in place.

"The Ministry has a wide range of financial assistance programs with a variety of eligibility criteria, target groups and purposes. It is not at all out of order and indeed is to be expected that Ontario farmers would apply to and would benefit from various programs. Where the Ministry felt that benefits under one assistance program would overlap the benefits provided under other programs, offsets were specified in the Order-in-Council and carried out by the Administrator. For example, interest reduction benefits received by a farmer under the Farm Operating Credit Assistance Program was deducted from OFFIRR benefits.

"With regard to farmers receiving benefits under both Crop Insurance and the Adverse Weather component of OFFIRR, Cabinet made an informed decision that those who were enrolled in Crop Insurance were not to be excluded from Adverse Weather benefits.

"Notwithstanding this, it is recognized that the Ministry would be in a better position to give policy advice for the development of new programs and amendments to existing programs if better information were available. Toward this end, the Ministry is exploring, internally and with farm organizations and commodity associations, the possibility of a comprehensive data base."

4.3 Effectiveness Not Measured and Staff Underutilized, Driver Improvement Program, Ministry of the Attorney General

The goal of the Driver Improvement Program is to rehabilitate convicted traffic offenders and reduce subsequent convictions.

In the 1987 fiscal year, expenditures for the program totalled $160,000. (Included in Vote 1106, Item 5.)

SUMMARY

SCOPE AND OBJECTIVE

An objective of our audit of the Driver Improvement Program of the Ministry was to assess whether the Ministry was adequately monitoring the Program's effectiveness.

CONCLUSIONS AND FINDINGS

No ongoing measures were in place to determine whether the program was effective.

- **A study prepared by the Ministry in 1981 found the program to be ineffective and because of declining attendance, recommended reductions in staff and the number of driver improvement centres.**

- **Program staff and the number of centres were reduced but because of further declines in attendance, staff are still underutilized. Accordingly, the costs of providing the program had increased from $22 per person in 1980 to $155 per person in 1986.**

COMMENTARY

Background

In 1974, the Highway Traffic Act was amended to permit an informal hearing process (Traffic Tribunal) for offences under the Act. Justices of the Peace, when sentencing a traffic offender convicted of a prescribed offence, can recommend that the offender attend the Driver Improvement Program.

In June 1974, the first driver improvement centre was opened when the North York Traffic Tribunal began hearing all traffic offences under its jurisdiction. By 1977, three other centres were opened within Metropolitan Toronto, increasing the number of traffic tribunals to four.

Ministry Study Determined the Program to Be Ineffective

In November 1980, Management Board recommended that the Ministry look at areas where manpower could be reduced, including privatization of the driver improvement program. By July 1981, the Ministry had completed an "Evaluation of the Driver-Education Programme". The intent of the study was to evaluate the effectiveness of the program, including an assessment of the program's goal.

Among the study's conclusions were the following:

- Taking part in the driver education program did not have an impact upon the number of traffic violations subsequently committed. A comparison of the traffic records of the offender before and after the driver education program showed no reduction in convictions in the post-test period but rather a slight increase.

- The pattern of convictions did not differ between those who had taken the program and those who had not.

- The number of referrals to the program by Justices of the Peace was steadily declining.

Three of the four centres were discontinued in 1983 as a result of the Ministry study.

At the time of our audit, the program was staffed by one manager, two instructors, one full-time and one part-time receptionist. Expenditures for the program consisted primarily of salaries and benefits. The cost of providing space for the instruction centre was not charged to the program, but was absorbed by the Ministry.

Increasing Program Costs

The attendance for the program peaked in 1978 at 34,000 and has declined steadily to 1,000 in 1986.

Despite the decrease in number of centres and employees, the cost of providing the program to traffic offenders had increased from approximately $22 per person in 1980 to $155 per person in 1986.

During 1986, 1,180 classes were scheduled. However, due to declining attendance only 534 classes were held. We were informed that often several days passed during which no classes were held. During these times, while the receptionists were assigned court administration duties, **no additional duties were assigned to the manager and two instructors.**

Lack of Program Monitoring

The Ministry did not have measures in place to monitor the effectiveness of the Program.

- Other than the 1981 study, there had been no ongoing measures in place to monitor and evaluate the program's effectiveness in improving driving habits. These results would be useful for making decisions such as whether the program should be modified for certain types of offenders or perhaps discontinued.

- Until 1980, annual statistics were prepared which included the number of persons asked to attend by Justices of the Peace, the number that refused and the number that failed to attend after agreeing to. Since 1980, the only statistics maintained were of the number of people that had attended the program.

Comments on Ministry Audits

RESPONSE

The Deputy Attorney General responded to our comments on September 8, 1987.

"Prior to the receipt of your report, the Ministry had completed an assessment of this program and after discussing the matter with the Chief Judge of the Provincial Court (Criminal Division) had decided that the program should be phased out for the reasons that are highlighted in your report.

"Senior staff of the Ministry are in the process of deciding how this phase out should be accomplished, particularly as it relates to the staff who are employed in the program. I expect that these details will be worked out shortly and that the program will be terminated prior to the start of the 1988/89 fiscal year."

4.4 Additional Monitoring and Verification of Information Required, Ontario Student Assistance Program, Ministry of Colleges and Universities

The main objective of the Ontario Student Assistance Program is to provide financial assistance to academically qualified and financially needy Ontario residents, to enable them to attend an approved post-secondary institution.

For the academic year 1985-86, there were about 82,000 study grants paid totalling approximately $115 million, and over 24,000 provincially guaranteed loans amounting to approximately $27 million.

As of March 31, 1986, there were approximately 73,000 outstanding loans totalling $127 million which were guaranteed by the Province. Interest paid by the Ministry on loans for students attending post-secondary schools during 1985-86 was about $6 million.

SUMMARY

SCOPE AND OBJECTIVES

We examined the Ontario Student Assistance Program, to assess whether:

- grants and loans were processed by the Ministry in accordance with established procedures; and
- financial information reported on student assistance application forms was adequately verified.

CONCLUSIONS AND FINDINGS

PROCESSING CONTROLS

Grants and loans were processed and paid in accordance with established procedures. However, established procedures should be extended to include periodic monitoring of the financial aid operations at the various educational institutions.

VERIFICATION OF INCOME AND ASSETS

The Ministry did take adequate steps to ensure that parents' income reported on the application was accurate. However, the Ministry was just beginning to verify student income information and had taken little action to verify other information, e.g. market value of homes and automobiles.

COMMENTARY

Overview

The major components of the Ontario Student Assistance Program are:

Ontario Study Grants
Canada Student Loans
Ontario Student Loans

Each plan has different eligibility requirements and uses slightly different criteria to calculate the student's financial need.

Applications for assistance are first evaluated by the Ministry for eligibility under the Ontario Study Grants plan. Such grants do not have to be repaid by the student. Applicants who do not qualify for a grant are assessed automatically for assistance under the Canada Student Loans plan. The Province administers this plan and is reimbursed for administrative costs by the Federal government.

If the financial needs of full-time students are still not met, further assistance may be provided under the Ontario Student Loans plan.

A student can receive assistance under all three plans. However, any grant assistance received under the Ontario Study Grants plan is treated as income in calculating the loan under the Canada Student Loans plan.

Students qualifying for loans borrow amounts up to the authorized level from banks or other approved lending institutions. These loans are guaranteed to the banks by the Federal government (Canada Student Loans) and by the Ontario government (Ontario Student Loans).

Interest on loans is paid by the Federal and Ontario governments while the student is attending the educational institution. However, six months after the student leaves the educational institution or ceases to be a full-time student, the student is responsible for repaying the loan principal and interest. Under a guarantee arrangement, if the student does not make the required payments, the applicable government is responsible for paying the bank.

Ministry records indicate that from 1978 to 1986 approximately $26 million was paid by the Ministry to lending institutions for defaulted student loans. Collection actions to recover these payments are generally taken by the Central Collection Services Branch of the Ministry of Government Services.

Of the $26 million paid by the Ministry, $4 million had been recovered at March 31, 1986 and $3 million had been written off.

PROCESSING CONTROLS

Most students applying for study grants and loans submit applications and supporting documentation to the Financial Aid Offices or registrars of their post-secondary educational institutions. While the activities of these offices are directed by the Ministry, their staff and resources are provided by the educational institutions.

Documents received by the Financial Aid Offices are reviewed for completeness and decisions are made about student entitlements for items such as living and travelling expenses. After completion of this review, the appropriate forms are sent to the Ministry for processing.

The relevant data is inputted into the Ministry's computer system which computes the amount of assistance to be provided and the students are then notified. Subsequently, grant cheques and loan authorization forms are sent to the educational institutions for distribution to the students.

Periodic Monitoring of Financial Aid Offices Needed

Our review of 27 fraud cases referred to various policing authorities by the Ministry, indicated that 14 cases totalling approximately $231,000 could have been prevented had there been stronger controls in areas such as monitoring of academic progress, class attendance and obtaining valid proof of identification. For example, had proper proof of identification been obtained, two individuals could have been prevented from impersonating 60 individuals and obtaining $175,000 over three years.

As a result of the above cases, the Ministry now requires that students present three pieces of identification prior to receiving grant cheques and that Financial Aid Officers monitor the academic progress of students receiving assistance.

To obtain assurances that these new Ministry requirements are being followed, we recommended that student financial aid operations at the educational institutions be periodically reviewed by the Ministry.

Duties Not Segregated

We noted that from June 1985 to May 1986, grant cheques totalling $22 million were sent by the Ministry directly to the Financial Aid Officers for distribution to students. This included grant cheques amounting to $1.24 million which were sent to one registrar at a private institution who performed the function of a Financial Aid Officer.

The distribution of grant cheques by individuals who also process applications creates opportunities for fraud. For instance, a Financial Aid Officer could submit a bogus application to the Ministry and subsequently retain the grant cheque.

We recommended that the Ministry specify in its directives to the institutions that adequate segregation of duties must be maintained.

VERIFICATION OF INCOME AND ASSETS

Background

The assessment process for determining the need for a study grant/loan takes into consideration income and assets such as houses and cars of the applicants and their parents. For example, as net asset value increases over a threshold of $85,000, the amount of the grant will decrease.

The applicant and parent must list their financial data on the application form, sign the appropriate sections of the form and approve the release of income tax information. Application forms indicate that an applicant who obtains a grant or loan by fraud or false pretence may be liable to prosecution under the Criminal Code of Canada.

Parents' and Students' Income and Assets Understated/Not Reported

Parents' Income

Actual income reported on application forms for parents is verified annually by the Ministry to income tax information provided by Revenue Canada. While this is a good control, it takes approximately two years before all relevant data is received from Revenue Canada.

As a result of carrying out such verification procedures in 1983-84 and 1984-85, the Ministry identified many cases of understated income which had caused grants to be overpaid by approximately $3 million in each of the two years.

Students are asked to repay excess grants immediately and if payments are not made within four to six months, the accounts are transferred to Central Collection Services. These overpayments, whether or not they have been repaid, do not affect the students' ability to receive future financial assistance.

Students' Income

The estimated income of students reported on application forms was generally not verified by the Ministry.

At the time of our audit, the Ministry had started on a test basis to verify the reported income of students to income tax information from Revenue Canada. From an exception report showing about 2,000 variances between reported income and income tax records, 51 files with the greatest differences were examined. **Twenty-three were reassessed for a total grant overpayment of $86,000 and the Ministry anticipated the remaining 28 files would be reassessed which could result in identifying additional grant overpayments.**

Market Value of Houses

The market value of houses reported on application forms was generally not verified by the Ministry. To test the reasonableness of such information, we compared a sample of market values reported to average prices of houses sold on the same street around the same time as the date of the application form.

Our test indicated that market values were understated in about 70 per cent of the applications reviewed. Findings of particular interest were:

- **Market values of houses on many applications were understated by at least $100,000.**
- Two applications had market values of houses in Metropolitan Toronto at less than $6,000 while houses on the same streets were sold for more than $120,000.
- The market value of one house was stated as $30,000; four months prior to the application date the house had been purchased for approximately $130,000.
- Two houses were sold shortly after the dates of the application at amounts significantly higher than the stated market values.

We recommended that the accuracy of market values of houses reported be periodically verified.

Market Value of Students' Cars

Students were required to record cars owned on their applications if the market value was greater than $1,000. To determine whether applicants were reporting these cars, we selected a number of applications where cars were not reported for comparison to vehicle registration records at the Ministry of Transportation and Communications.

We found several cases where, in our opinion, students owned cars with market values over $1,000.

We recommended that periodic reviews be carried out to assess ownership and market value of cars.

RESPONSE

We received the following reply from the Deputy Minister.

PROCESSING CONTROLS

Periodic Monitoring of Financial Aid Offices Needed

"The report indicated that 14 cases of fraud totalling $231,000 could have been prevented, had there been stronger controls in areas such as monitoring of academic progress and class attendance and obtaining valid proof of identification. Fourteen cases out of a total number of 79,327 grant recipients annually is indeed a very small number, and this attests, in my view, to the stringency of the existing controls. The report also noted that the ministry had taken steps to strengthen these controls by requiring assistance recipients to present additional identification and Financial Aid Officers to monitor the academic progress of students receiving assistance. These measures introduced in 1986 have already assisted in reducing the potential for abuse.

"With respect to monitoring students' academic progress, it should be noted that the institutions are fully responsible for their administrative processes and operations. It should also be noted that class attendance is not a requirement for all academic programs. While the Financial Aid Offices are expected to follow ministry

policies and guidelines, the ministry does not direct the activities of these offices. Nonetheless, the Student Awards Branch carries out cyclical procedural audits, once every two years, of the Financial Aid Offices. The new ministry requirements have been added to the scope of these procedural audits."

Duties Not Segregated

"With respect to the distribution of grant cheques, the report recommends that the ministry specify in directives to the institutions that adequate segregation of duties must be maintained. I am pleased to report that on July 31, 1987, my predecessor wrote to all institutions to bring to their attention our concerns with existing cheque distribution procedures and to ask them to report back the assurance of their auditors that appropriate controls are in place and that any necessary changes have been effected. . . . I might add that this measure was implemented after consultation with your officials and their advice was appreciated."

VERIFICATION OF INCOME AND ASSETS

Parents' and Students' Income and Assets Understated/Not Reported

Parents' Income

"We were pleased to note the Provincial Auditor's comment that good controls were in place respecting the verification of parental income which is the main component in determining the majority of students' awards."

Students' Income

"The delay in verifying students' incomes was caused by technical problems in obtaining release of the information from Revenue Canada.

"In 1986-87, we conducted a test audit of the greatest income differences in independent students' income for the 1984-85 academic year. Based on the results of the test audit, all independent students are reviewed in order to identify grant overpayments in those situations where the student has failed to fully declare income."

Market Value of Houses

"We do examine questionable real estate values as part of any application audits conducted by Verification Section Investigators. However, we normally can only ensure that a reasonable market value has been declared, in the absence of a subsequent sale or formal appraisal.

"We are aware that a problem of underdeclaration may exist. We are reviewing this matter to determine if an automated procedure can be implemented to examine real property values declared on all OSAP applications."

Market Value of Students' Cars

"As part of any investigation conducted by the Verification Section Investigators, a routine check with the Ministry of Transportation is

conducted to determine whether there are any vehicles registered to a student's name. While there has been some abuse, it was not considered to be of a magnitude to warrant universal verification of vehicle ownership. However, we will discuss, with the Ministry of Transportation, the feasibility of having an automated system developed to identify any abuse."

4.5 Improved Administration Required, Institutional Services Activity, Ministry of Correctional Services

The Ministry's Institutional Services Activity is responsible for providing custody and care to inmates through correctional centres, jails and detention centres.

Expenditures for the 1987 fiscal year totalled $240 million (Vote 1302, Item 3).

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives were to assess whether:

- management had adequate processes to ensure institutions were providing cost-effective levels of service throughout the Province; and
- management was measuring its success in protecting society from crime and motivating inmates towards positive change.

CONCLUSIONS AND FINDINGS

MONITORING OF OPERATIONS

Overall monitoring needed to be strengthened to ensure that each institution is run as cost effectively as possible. We noted that:

- **Review of staff levels was infrequent.**
- **Large differences in operating costs between institutions were not followed up.**
- **Regional office involvement varied significantly.**

PROGRAM EFFECTIVENESS

There had been only a limited attempt by the Ministry to measure the Activity's effectiveness, particularly with respect to the success of rehabilitation programs.

OTHER MATTER

Institutional policies regarding handling of drug occurrences were not being followed.

COMMENTARY

Background

The main function of the Institutional Services Activity is to provide for the custody and care of inmates awaiting trial or for those who have received a prison term of less than two years. Offenders receiving

prison terms of two years or more are transferred to a federal institution. Operations are conducted through 5 regional offices which are responsible for 10 correctional centres and 36 jails and detention centres.

The federal Young Offenders Act enacted in April 1985, established a system of youth courts, procedures and sentences separate from those for adults. The new law requires the Ministry to provide for the special needs of 16 and 17 year-old offenders (12-15 year-old offenders remain the responsibility of the Ministry of Community and Social Services).

Among the adjustments the Ministry had to make was the establishment of separate facilities, both open and secure, for young offenders. These offenders are located in 16 units of existing institutions, and in 2 separate young offender facilities.

We reviewed records and practices relating to our audit objectives and interviewed head office and institutional personnel. We visited seven institutions.

MONITORING OF OPERATIONS

Review of Staff Levels Needed

Salaries and employee benefits accounted for $188 million of the $240 million 1987 fiscal year expenditure of the Institutional Services Activity.

Correctional officers, youth officers, and professional staff such as social workers, psychologists and nurses comprise the major portion of institution staff. During the 1987 fiscal year the Ministry employed approximately 3,600 correctional officers and 450 professional staff.

Local institution managers generally ensure that their operating expenditures are within the budgeted allotment. **However, we felt that the overall monitoring process needed to be strengthened to ensure that appropriate staff levels were established for each institution.**

In four of the six adult facilities we visited, no documentation was available to show how the present staff levels had been established. In the other two facilities, documentation developed as a result of reviews by regional offices, was available to support the current staff levels.

Very few reviews have been completed in recent years and in some cases none have been done since the facilities opened. Since security requirements and inmate population keep changing, periodic review by senior management on the reasonableness of staffing levels is important.

The introduction of the Young Offenders Act in the 1986 fiscal year has placed a heavier workload on institutional staff. This is because, in addition to providing security, intensive counselling and extensive court involvement are required. The 1986 fiscal year start-up and operational costs of the program totalled $25.2 million.

Of the six young offender facilities that we visited only Bluewater Youth Centre had developed a staffing model. This model was developed based on an analysis of duties for each staff position and input from the Deputy Minister. We could find no evidence that similar models had been developed for the other young offender facilities we visited.

The Ministry's budgeting process had no mechanism in place to highlight areas of overstaffing. Institutions were not required to provide explanations for staff levels as long as salary amounts requested were the same as the previous year.

We recommended that independent reviews be conducted on all institutions to more accurately identify staffing requirements. The results of these reviews could then be used to develop specific standards for staffing that are more directly related to the individual requirements of institutions.

Institutional Operating Costs Not Monitored

The Ministry calculates daily inmate costs for each institution. In 1986, these per diem costs ranged from $64 to $266 for jails, $65 to $86 for detention centres and $56 to $145 for correctional centres. The wide fluctuations in costs could be due to the size of an institution, the number of days inmates stay, etc. **However, there was no evidence of a formal review to identify the reasons for the variation in per diem costs nor any indication of efforts to take corrective action where warranted.**

The Ministry's primary control is to ensure that each institution's spending is kept within budget. However, we felt that senior management should more rigidly monitor and compare operating costs by institution and with other jurisdictions. Such an exercise could highlight where institutions are being underutilized or where operating expenses warrant further investigation.

Need for Improved Overall Monitoring by Regional Offices

The Ministry's organizational structure emphasizes regional management responsibility. **However, we noted that in practice the extent of monitoring varied significantly between two regions visited by our staff. Specifically, we felt that the lack of adequate regional involvement and action could prolong performance problems at some institutions.** For example:

- Large differences in operating conditions were evident. For instance, at the Bluewater Youth Centre a maximum of four young offenders were sharing one room. At the Thunder Bay Correctional Centre we observed that all young offenders were cramped into one large room, there were no segregated facilities for problem offenders, and the segregation of female offenders was inadequate.

- In the 1986 fiscal year, overtime costs for regular and contract staff totalled $6.9 million (6 per cent of regular salaries) and $1.2 million respectively. We noted that some institutions managed to limit overtime costs to as low as 3 per cent of regular

salaries whereas at other institutions we visited it was as high as 9 per cent. At one institution, we were told that no one from the region had requested explanations for overtime incurred in two years.

- Reports sent to the regions did not include institutional sick leave data. Average sick days per staff were significant (up to 19 days per year) in several institutions.

PROGRAM EFFECTIVENESS

Inadequate Effectiveness Measures

The Ministry's objectives for the Institutional Services Activity are "to provide custody and care to inmates/residents in order to protect society from crime and to motivate inmates/residents towards positive personal change". In assessing how the Ministry had tried to measure its success in meeting these objectives, we had several concerns.

Protecting Society from Crime

The Ministry reports two measures with respect to its effectiveness in meeting its objective of protecting society from crime. They are the total number of escapes (1986: 115, 1985: 81) and the total number of misconducts such as assaults, damage to property, possession of contraband, etc. (1986: 12,070, 1985: 12,000).

We noted that the Ministry gathered these figures for statistical purposes only. It had not formally compared this information between institutions either within the province or outside the province to assess progress and to identify potential problem areas. For instance, if most escapes came from those institutions with a large number of correctional officers, this could indicate that it is the physical layout of the facility rather than the number of officers which best enhances overall security. Such information would be useful in capital and human resource long-range planning.

Motivating Inmates towards Positive Personal Change

The Ministry had not measured the effectiveness of its efforts in motivating inmates towards positive personal change. We acknowledged that correction efforts alone cannot achieve rehabilitation. However, since the institutions had committed substantial amounts of money (1986 - $10 million) and manpower to rehabilitate inmates, we felt that it was essential to have some idea of what results were being achieved.

This knowledge is important to help establish priorities in correction programs and to determine where funds can be best allocated. Some measures suggested were:

- percentage of offenders with previous convictions;
- percentage of former offenders employed or in school;
- which training courses resulted in related employment;
- which age group is most likely to be successfully rehabilitated; and
- past success in rehabilitating repeat offenders.

The institutions we visited maintained a prison industry such as a cannery and tailor shop, and provided academic upgrading and trades programs. Volunteers from the community provided various counselling services, such as life skills training and alcohol and drug abuse counselling. Work programs such as farming, kitchen duties and maintenance were available for inmates who were unable or unwilling to participate in any of these programs. Recreation facilities were also provided.

The Ministry had not conducted any studies to assess the success of its adult programs and therefore did not know how these programs had helped such inmates to adjust successfully in society. Without such information the Ministry also cannot tell whether new programs are needed or existing programs should be modified or dropped.

In the Thunder Bay Correctional Centre, for example, total program attendance in 1986 ranged from 17 to 28 out of an inmate population of approximately 70. This Centre provides training to adult inmates in certain academic subjects and in carpentry, electricity, small engine repair, welding and bricklaying trades. We were advised that some of these courses were established up to 20 years ago. **The Centre had no information on the demand in the area for these trades. We felt that data on trades in demand in the local area private sector was critical if skills training was to be relevant. This may be an area where the regional offices could liaise with Canada Manpower to obtain such information.**

We had similar concerns with respect to young offender programs, although we acknowledged that such programs were relatively new.

OTHER MATTER

Procedures for Handling Drug Offences Not Followed

The Ministry's Standards and Procedures Manual states that "When narcotics or controlled drugs have been found at an institution the appropriate police authorities are to be notified and care taken to preserve the evidence. The institution's Superintendent will advise the Regional Director that the police authorities have been called to investigate the finding of drugs at the institution."

During our review of occurrence reports prepared and retained by correctional officers at five institutions we noted that drugs were found on inmates or in their cells frequently. We were informed the number of drug occurrences could range as high as 100 per year in some institutions. **However, in practice, the police and respective Regional Director were seldom informed as required by the Ministry's manual. Additionally, the disposition of the drugs and the action taken were often not documented on the occurrence reports.**

We were advised that the quantities involved were usually small and that it was not practicable to inform the police and the Regional Director. However, we found that sometimes the reported incidents involved many inmates. In one case, we noted there was an attempted suicide due to the use of drugs which was not reported.

We recommended that Ministry procedures be reviewed and clarified. If the existing procedures were considered impractical, a new policy should be established and monitored by the regional offices.

RESPONSE

The Deputy Minister replied on October 15, 1987 as follows:

MONITORING OF OPERATIONS

Review of Staff Levels Needed

"While several institutions across four of our five regions are already carrying out various staffing reviews, in an effort to deploy staff in a more efficient manner, we agree with the auditor that this should be done on a ministry-wide basis. In fact, this problem has been identified, and the ministry will have the capability to do this on a centralized basis using specific criteria. As well, operational review reports have identified this issue.

"In Western Region alone, five institutions (out of 10) have had reviews conducted in the last year alone (including the one noted in audit). In other regions, during the same period, staffing reviews of varying scope have also been conducted.

"In Metro Region, three of the five institutions were reviewed. In Central Region, specific staffing needs analyses were conducted at Barrie Jail, Brantford Jail, Burtch Correctional Centre, Hamilton Wentworth Detention Centre (both adult and young offender operations). In the Eastern Region, staffing reviews have been carried out in seven of the 12 institutions in the last year.

"The auditors observe that the Ministry budgeting process contains no mechanism with which to highlight areas of overstaffing.

"It is valid to observe that there is no documentation of such a review mechanism, but monitoring of areas of overstaffing is going on though undocumented. For example, all regional offices undertake monitoring; as does the divisional management committee on a monthly basis. The point made by the auditors about lack of documentation is well taken, and procedures can be implemented to ensure that records are maintained. The new computer system for human resources management will be of invaluable assistance in this long-term monitoring process."

Institutional Operating Costs Not Monitored

"The audit report notes that daily inmate costs cover a wide range.

"This is true, particularly in institutions where the number of inmates housed can vary from 22 to over 600 inmates. In making this observation the auditors do not take into account the other factors which can affect daily inmate costs in addition to occupancy such as the age of the facility, its layout, the number of professional staff, programming requirements, different purpose of different types of facility (jail vs. detention centre vs. correctional centre), the age of offender (adult vs. young offender), the internal classification of inmates, etc.

"Our senior management group regularly reviews per diems across all facilities, taking into account these factors, and feels, on the basis of this that the per diems are fair.

"The auditors note that there is no evidence of formal review of reasons for variations in per diem costs.

"To the extent that this review is not documented, their observation is accurate. However, the Ministry has begun with the larger institutions to develop a capability for reviewing and analyzing five-year trends so as to analyze budgets properly and take remedial action where necessary. Subsequent to the 1988 budget year we will be analyzing 10 large correctional centres, and 10 large detention centres, where most of the major costs lie. By the 1988-89 budget year, as a ministry, we will be in a much better position to show evidence of documented monitoring.

"The auditors' observation also does not take into account both the divisional management committee meetings and the senior management committee meetings, where reviews take place monthly, albeit without sufficient documentation. The auditors observations on this are well taken, and particular care will be taken to note this type of discussion in the minutes, in future.

"Some examples of cases where corrective action has been taken include:

"Burtch Correctional Centre, where, in the face of lowering counts, and increasing per diem costs, plans are being developed to expand the use of the Centre beyond the minimum security farming-operation into a treatment centre for the western region, and thus meeting a broader range of inmate needs;

"Vanier Correctional Centre, where, in the face again of lowering counts, and change in needs of the female population, plans are in place to develop a female treatment center, and move female inmates from Metro West Detention Centre to Vanier for medium as well as intermittent stays;

"Niagara Detention Centre, where the under used female unit on the second floor is being converted to create a permanent young offender facility at a saving of substantial capital costs;

"Mimico Correctional Centre where inmates have been moved from other Metro institutions, and its security level has been changed from minimum to medium so as to accommodate a wider range of inmates;

"As a result of this constant monitoring by senior management of the Ministry, evidence of underutilization has been identified and ways to change usage and to move inmates have been uncovered and implemented.

"Finally, historically, our Ministry has closed several institutions which were underutilized, including Brampton Adult Training Centre, Burwash, and several small jails in a number of areas have been consolidated and the facilities closed to transfer inmates into more efficiently operated modern detention centres."

Need for Improved Overall Monitoring by Regional Offices

"The report notes that the extent of monitoring of institutions by the regional offices varies across two regions.

"Although the report is unclear as to which regions it is referring, we have already recognized this as an issue requiring attention.

"This has been identified in several of our operational review reports, and in divisional management committee/senior management committee. It is beginning to be addressed through specialized reviews now being conducted such as the review of the role of the regional business administrators concerned with financial matters.

"As well, monitoring will increase significantly in future, as the divisional operational plan has now been released to all regional directors who will be required to develop regional operational plans, and all institutions will be required to write institutional operational plans consistent with the regional plans.

"The auditors quite accurately note that 'lack of adequate regular involvement can prolong performance problems'. It is in recognition of this factor that we have been taking action.

"The report notes large differences in operating conditions across several facilities. The Thunder Bay Correctional Centre is contrasted with the Bluewater Youth Centre.

"Although both are examples of interim accommodations it must be noted that Bluewater was a closed facility for the developmentally handicapped belonging to Ministry of Community and Social Services and renovated to interim young offender needs. Thunder Bay was a functioning correctional centre which has been modified while continuing to operate, in order to meet interim needs.

"Over the past year, planned alterations have continued at Thunder Bay to provide suitable separation and washroom facilities for female young offenders in order to meet our requirements under the Young Offenders Act. A completely new young offenders facility is approved for Thunder Bay and should be opened within two years.

"Lack of regular monitoring of overtime costs at institutions by the regions is noted as a concern. Unfortunately this is an inaccurate observation. Overtime and unclassified staff usage is monitored monthly at the institutional level, and all regions monitor overtime and unclassified costs monthly also. The documentation for this monthly monitoring is consistent across our regions, and our overall financial performance is discussed monthly at senior management committee and divisional management committee where regional directors are held to account. In response to the auditor's concern, we will work toward ensuring that these routine enquiries are thoroughly documented.

"The auditors observe that reports sent to the regional offices by institutions do not include institutional sick leave data.

"We agree that there is no specific attendance report sent to regional office by institutions in all regions monthly, however, monthly overtime costs and unclassified staff usage data shows a complete breakdown of the reasons for such usage, including staff sick time. As well, most institutions have formal Attendance Review Committees with the smaller ones having an attendance review process."

PROGRAM EFFECTIVENESS

Inadequate Effectiveness Measures

Protecting Society from Crime

"The auditors observe that the Ministry is not formally comparing escapes and misconducts across institutions within the province or with other jurisdictions and that this information is thus not used for long range resource planning.

"This is an accurate observation but for the same reasons that cross-jurisdictional comparisons of per diems are not fruitful (the types of programs, number of locations of facilities, capacity of the accommodations, age of the buildings and their layout, number of inmates), we do not carry out comparisons of escape/misconducts. Thus, it is not possible to use such information in long range planning. In one region, however, these data are routinely incorporated into the performance appraisals of superintendents. In other regions, they would be incorporated if negligence were indicated.

"The auditors' suggestions on ways in which more detail on escape and misconducts might be used to measure effectiveness are welcome and will be referred to both our Research Branch and Offender Programming Branch for consideration."

Motivating Inmates towards Positive Personal Change

"The report notes that the Ministry has not measured effectiveness of its programs.

"This is indeed a valid concern, and one with which this Ministry, and centres of criminological research have struggled for several years. Measures which have been identified have been found either to be not workable or practicable from the standpoint of cost or respect for privacy.

"To implement the suggestions made by the auditors would entail an extensive post-release follow-up program which would be extremely costly. Because of the high cost, this Ministry has elected not to undertake such an exercise.

"Monitoring of recidivism rate of readmitted ex-offenders from the Ontario system will be significantly improved when this Ministry's new offender information system is implemented, but this will only identify those offenders who are charged again in Ontario, or are transferred to the jurisdiction of Ontario to serve sentence. There is no means of identifying those former Ontario offenders who are re-charged in another jurisdiction."

" The auditors note that the Ministry has not conducted any studies to assess the success of its adult programs. Over the years, several studies have been done, following which programs have been cancelled or modified. Some examples include: The Bail Projects, Short-term parole, self-sufficiency farming.

"Additionally, the Ministry's Industrial Programs, as well as its self-sufficiency farming operations are monitored continually, using the M.B.R. process.

"Thunder Bay Correctional Centre has no information on demand for trades training. Teachers and instructors at Thunder Bay Correctional Centre keep all records about inmate participation and performance. Participation in trades training, is not popular as the inmates prefer farming, groundskeeping and maintenance activities.

"The suggestion that Thunder Bay Correctional Centre contact CEC is good and we will be pleased to follow that up, along with increased liaison with the Ministry of Skills Development.

"As well, it is important to note that at present, an extensive policy review of industrial programs is underway which will be pleased to consider the comments included in the audit report."

OTHER MATTER

Procedures for Handling Drug Offences Not Followed

"The Ministry already has documented procedures, both at a corporate level through the Manual of Standards and Procedures, and at an institutional level through the Standing Orders, concerning the entry of drugs into an institution, search, seizure and control. With 48 institutions, it is possible that the application of these procedures may vary. We welcome this observation and will review our policies and procedures in light of the comments made, to ensure that these procedures are evenly applied across the ministry."

4.6 Better Effectiveness Indicators Needed, Blind, Deaf and Demonstration Schools Activity, Ministry of Education

Schools for the Blind and Deaf, and Demonstration Schools (for students with severe learning disabilities), known as Provincial Schools, provide special day and residential education programs, at the elementary and secondary levels. Such programs are mainly for Ontario residents between the ages of 5 and 21, whose needs cannot be met by local schools.

Expenditures for these Schools during the 1987 fiscal year were $39.2 million (Vote 3002, Item 2).

SUMMARY

SCOPE AND OBJECTIVES

Our objectives for the audit of the Blind, Deaf and Demonstration Schools Activity included an assessment of whether:

- legislation and established procedures were followed for the admission and placement of students; and

- satisfactory procedures were in place to measure and report on program effectiveness and resource management.

CONCLUSIONS AND FINDINGS

GENERAL OBSERVATION

- **During our visits to the schools we were very impressed with the dedication and efforts of the staff in dealing with the care and special needs of the children.**

COMPLIANCE WITH LEGISLATION AND MINISTRY POLICY

- **In all significant respects, students had been admitted to Schools for the Blind and Deaf in accordance with criteria established by regulation under the Education Act.**

- **The approval process for admitting students to Demonstration Schools had been followed. However, because documentation was lacking, we were unable to determine whether admission decisions had been made consistently and fairly.**

EFFECTIVENESS INFORMATION

- **More meaningful indicators were required to measure and report on program effectiveness and resource management.**

- **Over the past three years, Schools for the Deaf had averaged only 60 per cent of their capacity and had experienced declining enrollment.**

COMMENTARY

Background

The Provincial Schools consist of a School for the Blind, three Schools for the Deaf and three Demonstration Schools. One of the Demonstration Schools, the Centre-Jules Leger, provides programs to French speaking students under an agreement between the Ministry and the University of Ottawa.

Staffing at the schools consists of 280 teachers and 500 support staff. For 1986 enrollment at these schools totalled 984.

COMPLIANCE WITH LEGISLATION AND MINISTRY POLICY

Admission Criteria Met at Schools for the Blind and Deaf

Criteria for admitting students to Schools for the Blind and Deaf are established by regulation under the Education Act. Such criteria include:

- a certificate from a duly qualified medical practitioner that, because of a severe visual or auditory handicap, a special education program is needed; and

- a recommendation from the Identification, Placement and Review Committee of a local school board that the applicant needs this special education program.

Our tests of documentation on students' files indicated that, in all significant respects, students had been admitted to the schools in accordance with the established criteria.

Approvals Received But Documentation Lacking in the Admission Process for Demonstration Schools

Students are admitted to Demonstration Schools through the following process:

- Applicants are recommended by the local school board Committee to a Regional Committee on Learning Disabilities.
- Applicants approved by the Regional Committee are referred to the Provincial Committee on Learning Disabilities for final approval.

Our tests of documentation on students' files indicated that students had received the approvals required by the process.

However, in reviewing the admission process, we were unable to determine whether approval decisions had been made consistently and fairly by the Committees because documentation was lacking for:

- the decisions made by the Regional Committee to either accept or reject applications received from the school boards. In this regard, the number of applications initially forwarded by the local school boards to the Regional Committee was also not available; and
- the decisions made by the Provincial Committee to either accept or reject applications approved by the Regional Committee.

EFFECTIVENESS INFORMATION

Better Performance Indicators Required

Effectiveness or the extent to which a program or service has achieved its intended effects is the core of value for money in government. Generally, the measurement of program effectiveness requires a clear statement of what the program is attempting to accomplish for the clients, and indicators of performance to show how well the program is doing.

According to the 1985-86 Annual Report of the Minister of Education the basic objectives for the School for the Blind and Demonstration Schools are as follows:

- School for the Blind: to prepare students to live independently in an environment that is not artificially sheltered.
- Demonstration Schools: to develop the abilities of its students to a point where they will be able to return to local programs operated by school boards.

The Ministry has established some performance indicators such as the number of students enrolled, diplomas granted and the number of graduates placed in school board programs. **We felt that more**

meaningful indicators were required to demonstrate program effectiveness and resource management. For example:

- the number and percentage of blind and deaf students living independently after graduation;
- the number and percentage of students with jobs;
- the number and percentage of students attending colleges or universities;
- the cost per student by type of program for each school; and
- teaching and administrative staff to student ratios for each school.

In order to improve program accountability and control we recommended that such additional indicators of program effectiveness and resource management be developed so that comparisons by school can be made over time. Further, where variances are significant the Ministry should request explanations from school officials.

Utilization of Schools

Schools for the Blind and Deaf

For the past three years, the School for the Blind has averaged approximately 85 per cent of its capacity of 275 students (25 Day; 250 Residential). **However, over the same period, Schools for the Deaf have averaged only 60 per cent of their capacity of 1100 students (540 Day; 560 Residential).**

While there was no substantial change in the total enrollment at the School for the Blind since 1984, enrollment at the Schools for the Deaf has declined.

We were informed by the Superintendents of the Schools for the Deaf and senior Ministry officials that the decline in enrollment resulted from:

- local school boards providing educational programs to deaf students which were equivalent to those being offered in the Schools for the Deaf;
- only the most severe cases being sent to the Schools for the Deaf; and
- a general decrease in the incidence of hearing disabilities.

The Ministry has advised that initiatives have been undertaken to make better use of school and residential space and to enhance programs.

Demonstration Schools

Two Schools had operated at capacity over the past three years, while the third, the Centre Jules-Leger, had operated at 85 per cent capacity.

RESPONSE

We received the following response from the Deputy Minister of Education on October 5, 1987.

COMPLIANCE WITH LEGISLATION AND MINISTRY POLICY

Approvals Received But Documentation Lacking in the Admission Process for Demonstration Schools

"Revised procedures for admission to Demonstration Schools were instituted in August of 1986. These revised procedures were communicated to school boards in August of 1986 and application requirements to Regional Directors of Education in December of 1986.

"Highlights of the new procedures are:

- Regional Committees were abolished
- The Provincial Committee interviews all potential applicants, parents and board officials
- The decisions of Committee are communicated to Regional Directors of Education in a memorandum for each candidate
- Any candidate not recommended for admission to a Demonstration School is given reasons why and alternative placement recommendations
- A complete file is now maintained for each applicant
- A formal appeal mechanism is in place."

EFFECTIVENESS INFORMATION

Better Performance Indicators Required

"The audit suggests a number of such indicators:

- The number of blind and deaf students living independently after graduation
- The number of students with jobs
- The number of students attending colleges and universities
- The cost per student by type of program for each school
- Teaching and administrative staff to student ratios for each school . . .

"All of this data is available and is considered in determining program effectiveness and accountability. Variances are considered and explained."

Since this comment was at total variance with our findings we subsequently wrote to the Deputy Minister as follows:

"We were not made aware during our audit nor during subsequent meetings with Ministry officials that, as stated in your response, these indicators were available and were considered in determining program effectiveness and accountability.

Comments on Ministry Audits

"If these indicators and the Ministry's analysis of variances are available at the Ministry, could you let us know through whom this information can be made available for our review?"

In his letter of October 5 the Deputy Minister also advised:

"Graduates of Demonstration Schools and the programs selected after graduation are listed monthly on statistical forms."

"A major review of the effectiveness of Demonstration Schools is being considered currently in the new Branch, and additional performance indicators will be considered."

4.7 Improved Pollution Enforcement Procedures Needed, Environmental Control Program, Ministry of the Environment

The purpose of the Environmental Control Program includes the protection of air and water quality, the management of waste disposal and the regulation of the use of pesticides.

Program expenditures for the 1987 fiscal year totalled $74.8 million (Vote 1803).

SUMMARY

SCOPE AND OBJECTIVE

In conducting our review of the Environmental Control Program, our primary audit objective was to assess whether the Ministry had adequate procedures to identify and enforce compliance to requirements by polluters.

CONCLUSIONS AND FINDINGS

IDENTIFICATION OF POLLUTION SOURCES

We concluded significant improvement was required to ensure the Ministry identifies all sources of pollution and enforces compliance to requirements by polluters. The following were some of our more noteworthy findings:

- **Data submitted by the four largest contributors of acid rain in Ontario was not being verified for compliance to specific limits as required by regulation.**
- **Many pollution complaints received lacked adequate evidence of follow-up by the Ministry.**
- **The lack of self-initiated inspections lessened the Ministry's effectiveness in identifying pollution sources.**
- **The Ministry has been generally inactive on a number of companies discharging contaminants directly into lakes and rivers beyond limits set out by Ministry guidelines.**
- **A proposed Municipal - Industrial Strategy for Abatement (MISA) promises to improve water quality once implemented by the Ministry.**

OTHER MATTERS

- **In several instances the Ministry did not comply with the requirements on tendering and selecting services set out in the Ontario Manual of Administration. In one case, a contract in excess of $900,000 U.S. was issued to a company without tendering.**

- **Improved control was needed to maximize the economic utilization of Ministry vehicles. For instance, one employee was reimbursed in excess of $9,500 (53,000 kilometres) in one year for using his own vehicle while during the same period a Ministry vehicle logged less than 8,000 kilometres.**

COMMENTARY

IDENTIFICATION OF POLLUTION SOURCES

Overview

Control orders and certificates of approval are issued by the Ministry to companies and individuals as a means of limiting and controlling pollution. These orders and certificates carry statutory authority, usually setting out compliance dates. When a polluter violates any conditions contained in these documents, the Ministry is then in a position to consider prosecution.

As of September 1986 there were approximately 80 orders outstanding to various polluters throughout Ontario. During the 1986 fiscal year the Ministry issued approximately 4,200 certificates of approval to various individuals and companies throughout Ontario.

Lack of Verification - Acid Rain Contributors

It has been estimated that in North America, acid rain is responsible for at least $5 billion in quantifiable damages each year. An ongoing survey of 5,341 lakes in Ontario has revealed that at least 220 lakes are already dead, and 694 lakes are extremely sensitive to acid rain.

The Ministry budgeted approximately $6 million in the 1987 fiscal year to study the environmental effects of acid rain and other air-transported pollutants.

In order to control the acid rain originating in Ontario, special regulations were passed in 1985 limiting the annual sulphur dioxide emissions permitted by the four largest contributors. By 1994 the annual emission limits of sulphur dioxide from these four companies are to be reduced by approximately 50 per cent from the current limits (Acid Rain Countdown Program).

Our review of the Ministry's control over these four companies in light of the 1985 regulations revealed that the Ministry was accepting the data submitted by these companies at face value without performing an independent verification of the results reported. We also noted that one of the four contributors of acid rain reported sulphur dioxide exceeding the control order emission limit to the Ministry on a number of occasions within a year without being investigated.

We felt the Ministry should periodically verify the data submitted by the four largest contributors for compliance with the Acid Rain Countdown Program.

Inadequate Follow-Up of Complaints

In the 1986 fiscal year the Ministry received approximately 12,000 complaints from the public regarding pollution problems across Ontario. It is the responsibility of Environmental Officers to investigate these complaints and ensure corrective action is taken when deemed necessary.

In our review of six districts covering two regions we observed that in four districts there were no control logs or summary records of complaints received nor reports on the status of complaints. We then selected 120 complaints and noted:

- There were 15 instances where no evidence existed that the complaint was addressed. In one instance a complainant reported an unknown substance spilling into a lake and in another case an incident of dumping and burying toxic waste was reported.

- There were 16 instances where the complaint was inadequately followed up. In one instance the Ministry told a complainant to follow up an unpleasant rancid odour himself. In another instance the Ministry failed to collect evidence necessary for the prosecution of a company.

In view of the large number of complaints received by the Ministry we recommended that:

- all districts maintain a summary record of all complaints received and how they are being addressed; and

- district supervisory staff review the action taken by the officers to ensure that the complaints are properly followed up.

Lack of Self-Initiated Inspections

Routine, self-initiated inspections (as opposed to inspections conducted as a follow-up of a control order, certificate or complaint) are an important means of monitoring known or suspected pollution sources.

In order to determine whether the Ministry was conducting self-initiated inspections we surveyed all 22 districts covering six regions and noted that :

- All six districts in the two northern regions advised us that they do routine inspections.

- Only eight of the 16 districts in the four southern regions claimed that they do any inspections, with five of these reporting very few.

The Environmental Protection Act states that an officer may "enter at any reasonable time any building structure . . . and make such surveys, examinations, investigations . . . as he considers necessary."

All six regional directors informed us that proactive work, such as inspection of pollution control facilities is important. However, on the average, districts spend only 25 per cent of their time on proactive duties, for example, conducting self-initiated inspections. Four districts spent as little as 10 per cent of their time on such work.

We felt the lack of self-initiated inspections resulted in the Ministry being less effective in identifying sources of pollution as it then needed to rely on the public or other organizations to identify the polluter. For instance:

- One company operating without a certificate of approval for waste handling and storage was brought to the attention of the Ministry by a municipal fire department after improper storage practices resulted in a fire for the second time.

- In another case, no inspections were performed for four years (1979-1983) at a site which had been identified as a source of contaminated discharge (leachate). The leachate contained PCB's, DDT and other substances known to be harmful to animals and humans. During this period no steps were taken to contain the leachate until a complainant brought it to the Ministry's attention.

We were informed that a recent Ministry initiative will establish monitoring and effluent limits regulations which in turn will strengthen enforcement mechanisms. In addition the regional managers will continue to review the need for inspection visits and strive to increase self-initiated visits in some districts.

Improved Enforcement Required - Water Pollution

Control over Discharges

There are two major sources of industrial water pollution - direct dischargers and dischargers to the sewer systems. Direct dischargers are those companies whose wastes are sent directly from their plants into a local stream or lake. Discharge to sewer systems is more common in heavily urbanized areas.

The Ministry estimates that there are roughly 300 direct discharges to Ontario waters while there are over 11,000 industries using sewers to dispose of wastes. The Ministry does not regulate toxic waste dischargers into sewers. The responsibility is left to the owner of the sewer system, i.e. the municipalities, to control.

At the time of our audit, there were no regulations governing direct dischargers, but the Ministry had water management guidelines setting out maximum acceptable levels of emission for various pollutants. One of these guidelines required that 50 per cent of small trout which were placed in undiluted effluent (discharge) had to survive for 96 hours. This was referred to as a toxicity test.

The vast majority of direct dischargers are expected to monitor their effluent on a voluntary basis and submit the data to the Ministry. If the companies do not voluntarily submit the data, they are requested by the Ministry to do so. Each year, the Ministry produces a report on the industrial companies in Ontario which discharge directly to waterways connected to the Great Lakes.

We reviewed the 1985 Discharges Report and noted that the Ministry had information on only 147 of the 300 companies that discharged directly into the waterways. Furthermore, out of the 147 companies:

- Only 39 companies reported toxicity results to the Ministry. Of these, 31 failed the test.

- On an annual basis, 58 were not complying with Ministry guidelines (maximum acceptable levels of emission).

We reviewed 50 companies not in compliance on a monthly basis with Ministry guidelines and noted that:

- Thirty-four of the companies were not subject to any Ministry control orders or certificates as a means of limiting, and controlling water pollution.

- Thirteen companies which were subject to these documents, exceeded specified limits and were not considered for prosecution.

Initiatives to Protect Ontario Waterways

In an effort to protect Ontario waterways the Ministry is planning to introduce a new program in 1987 entitled Municipal - Industrial Strategy for Abatement (MISA) which will require monitoring and strict effluent limits for both industrial and municipal discharges of toxins. MISA's ultimate goal is to virtually eliminate toxic contaminants in municipal and industrial discharges into waterways, to reduce the risk of damage to the ecosystem and to protect public health by minimizing the presence of toxins in drinking water, fish and wildlife.

This goal will be achieved in number of ways including:

- identifying and measuring the discharge of toxic substances in addition to conventional contaminants in municipal and industrial effluents, thus establishing a comprehensive data base on contaminant discharges across Ontario;

- increasing the emphasis on control technology to achieve greater reductions of pollution at the source, using the best available technology and setting effluent limits for each discharger in the municipal and industrial sectors as the minimum pollution control requirements ; and

- strengthening enforcement mechanisms, including the introduction of monitoring and effluent limits regulations, to set down the obligations of the discharger to participate in the abatement process.

OTHER MATTERS

Lack of Adequate Tendering for Services Acquired

We reviewed program tendering and selection procedures for 20 recent service contracts greater than $25,000 and noted:

- **There were two instances where tendering was not carried out. One of these was a $940,000 U.S.A. contract with a company for the development of a computer model for the long-range transport of air pollutants. Furthermore, this contract was also not approved by Management Board as required by the Manual of Administration.**

- **There were four instances where the selection process was questionable.** For example, in one case a company was hired in 1981 at an annual cost of approximately $125,000 to conduct a neutralization project over the next five years which included testing the practicality of restoring and protecting acid-stressed lakes. The price of the contract was renegotiated annually contrary to the Manual of Administration which requires fixed price contracts.

  In 1986 the Ministry awarded the same company a five-year contract for $862,000 to evaluate its own work on the neutralization program. With respect to this contract, the Ministry failed to allow the five business days required by Management Board Guidelines between the issue of the requests for proposal and the bidders' conference. In addition, when comparing cost estimates of various bidders, the Ministry adjusted one bid upwards by approximately $85,000 and reduced the successful bidder's price by $145,000 before concluding that it was the lowest bid by $13,000.

- There was one instance where the Ministry signed a contract with a firm one week before the closing date for receipt of bids.

Tighter Control Required over Use of Vehicles

The Ministry had approximately 450 vehicles of which 221 were passenger vehicles for staff to use in the normal course of their duties such as following up complaints, performing company inspections, etc. Staff were also permitted to drive their own personal vehicles and were reimbursed from the Ministry based on established rates per kilometre.

A recent Management Board report shows that it is more economical for Ministries to supply a vehicle to staff who drive more than 15,000 kilometres per year outside Toronto and 22,000 kilometres per year within Toronto rather than to have these people use their own vehicles and be reimbursed by the Ministry.

In order to assess whether Ministry vehicles were being utilized economically we reviewed the number of kilometres driven by staff for 1986-87 using their own vehicles and discovered:

- **Seventeen individuals outside Toronto had driven more than 17,000 kilometres using their own vehicles, while a number of Ministry vehicles within the same region logged less than 8,000 kilometres.**

- **Eight individuals in Toronto had driven more than 24,000 kilometres using their own vehicles, yet several Ministry vehicles within the same area were driven less than 8,000 kilometres. In one instance the Ministry reimbursed an individual in excess of $9,500 for more than 53,000 kilometres driven on his own vehicle yet a Ministry vehicle in the same location logged less than 8,000 kilometres.**

We noted that the Ministry's Management Audit Branch in its 1985 report found that "staff are allowed to travel by personal vehicles and claim compensation when Ministry vehicles are not fully utilized". We also had some concerns in our previous report over the utilization of Ministry vehicles.

RESPONSE

The Deputy Minister responded to our comments and recommendations on September 11, 1987.

GENERAL

"The conclusions and findings in the report are noted and we acknowledge that improvements can be made in identifying sources of pollution and enforcing environmental laws.

"The Ministry has recognized these issues and has taken significant steps to improve the Environmental Control Program. Among the many initiatives undertaken, the major ones are:

- The Municipal-Industrial Strategy for Abatement (MISA) is described in your audit report.

- The continual review and improvement of procedures and systems to identify and control pollution sources and the utilization of resources efficiently and effectively."

IDENTIFICATION OF POLLUTION SOURCES

Lack of Verification - Acid Rain Contributors

"Sulphur Dioxide emission rates are submitted to the Ministry on a regular basis. In all (4) cases . . . the emission rates are based on mass balance calculations (i.e. feed analysis and process calculations to determine emission rates).

"The Ministry has previously determined, through stack sampling, that the mass balance method produces very good estimates of emission rates. Therefore, by assessing the submitted emission rates in light of known production rates, the Ministry has been accepting the data submitted by these corporations. It might also be noted that except for (1) . . . (which submits daily reports), the other 3 are operating well below the emission rates required by the Regulations.

"However, because of the importance of the acid rain program, the Ministry will undertake audit checks to ensure that the data submitted by these 4 corporations are in fact an accurate presentation of their sulphur dioxide emissions."

Inadequate Follow-Up of Complaints

"We agree with the general intent of this recommendation (to maintain summary records of complaints). The Operations Division is taking action on this matter with the development of a revised Occurrence Report Form which is planned for implementation in this fiscal year. This form will combine the Complaint Form, the Spill Report Form and the existing Occurrence Report Form into a single report.

"A computerized record system is under development to maintain information files on all complaints, and to document any follow-up action. The reports generated by this system will facilitate the review and follow-up by supervisory staff."

OTHER MATTERS

Lack of Adequate Tendering for Services Acquired

"The Ministry has revised its internal purchasing procedures to ensure that goods and services are awarded in accordance with Management Board of Cabinet Directives and Guidelines. Ministry staff involved with the purchasing of services have been formally reminded by the Deputy Minister that they must adhere to the above Directives and Guidelines.

"In addition, the signing authority for purchase orders has now been amended. All orders over $100,000 must be reviewed by the Director, Administrative Services Branch, to ensure that proper tendering practices are followed."

Tighter Control Required over Use of Vehicles

"As a result of an audit by the Management Audit Branch in 1985 the Ministry has addressed this problem and has been in the process of buying additional vehicles. In the past 12 months, 64 passenger vehicles have been purchased to reduce the excessive use of personal vehicles and meet new program needs. In addition, Ministry's policy on the use and management of motor vehicles is being revised to require managers to monitor the use of personal vehicles."

4.8 Weak Procedures and Controls, Health Insurance Program, Ministry of Health

The Health Insurance Division of the Ministry of Health is responsible for the overall administration of the Ontario Health Insurance Plan (OHIP). This includes processing the enrollment of all eligible Ontario residents in the program and the payment of medical claims. Approximately 81 million claims are processed annually by 9 District Offices and 12 Satellite Offices.

In the 1987 fiscal year, the Plan handled claims from over 20,000 physicians and other practitioners and paid out $3.2 billion in benefits (Vote 3106, Item 1).

Comments on Ministry Audits

SUMMARY

SCOPE AND OBJECTIVES

Our EDP audit in the Ministry of Health focused on OHIP. The specific areas reviewed were the Subscriber Administration System, the Health Resources Register and the Out of Province Hospital Claims. Each of these components performs a major function in validating the disbursement of funds to subscribers, and providers of health care.

Our audit objectives were to assess whether:

- payments were only made to or on behalf of subscribers in good standing at the time the service was performed (Subscriber Administration System);
- payments were only made to practitioners licensed by their respective colleges to practice in Ontario and registered with OHIP (Health Resources Register); and
- Out of Province claim processing procedures were adequate.

CONCLUSIONS AND FINDINGS

GENERAL

The computer system which processes OHIP information and payments is outmoded and unresponsive to the present-day needs of OHIP and has not kept pace with advances in computer systems design.

SUBSCRIBER ADMINISTRATION SYSTEM

Procedures to ensure that payments were only made to or on behalf of subscribers in good standing were weak.

- **Payments were made (Good Faith Policy) on behalf of subscribers where non-payment of premiums caused the contracts to lapse.**
- **The number of participants on the Claims Reference File was nearly three times the total population of Ontario.**

HEALTH RESOURCES REGISTER

Payments were only being made to practitioners who were registered with OHIP. However, the procedures to ensure that only authorized, complete and accurate data was contained on the database, required improvement. The following anomalies were noted:

- **Nine physicians were registered without matching data on the College of Physicians and Surgeons of Ontario file.**
- **Eight instances were noted where two different physicians had been registered with the same College-issued licence number.**
- **Eleven physicians were registered with two different physician numbers.**
- **There were surname and deceased status discrepancies noted between the Register and the College file.**

OUT OF PROVINCE HOSPITAL CLAIMS SYSTEM

Monitoring of these claims should be strengthened.

- **Substantial payments had been made for long-term psychiatric patients receiving treatment in the U.S.A.**
- **In 1986, $3.3 million was paid to U.S.A. institutions for alcoholism and drug addiction treatment received by Ontario residents.**
- **Payments had been made for questionable services.**

COMMENTARY

Background

The OHIP computer system is one of the largest and most complex computer systems in the Ontario government. It has over 1,500 computer programs consisting of approximately 1.5 million lines of coded instructions.

The system was originally designed over 20 years ago and some of the programs in current use still adhere to the original design. Over the years the system has undergone numerous major changes and enhancements, and this evolutionary process is continuing.

SUBSCRIBER ADMINISTRATION SYSTEM

Overview

A subscriber registration system was first implemented in 1959 to provide enrollment and billing information for the administration of hospital insurance by the Ontario Hospital Services Commission. When OHIP was introduced in 1972, this registration system was modified to handle medical as well as hospital insurance. In 1977 the Subscriber Administration System replaced the registration system.

Information contained on the Subscriber database is one of the primary sources used for determining the eligibility of hospital and medical claims prior to payment.

Good Faith Policy

In situations where a medical practitioner could not possibly know of an insurance coverage problem of his/her patient, e.g. the subscriber has not paid premiums, OHIP will pay any claims submitted by the practitioner. Claims will continue to be paid until such time as the practitioner has been notified that "coverage is not in effect". This practice commonly referred to as the Good Faith Policy has been approved by regulation under the Health Insurance Act.

OHIP Numbers Which Have Lapsed

An OHIP subscriber contract is considered to be lapsed if the premium is overdue for approximately four months. **In a sample of 12,000 records, we observed that many payments were being made to practitioners in cases where the subscriber contracts had lapsed.**

According to statistics produced by OHIP Head Office, approximately $50 million (2 per cent of the total claims paid) was paid out annually for claims under the Good Faith Policy.

Excessive Number of Participants on the Claims Reference File

The Claims Reference File is a history of processed claims. It is updated each night by the Claims Processing System. New claims which satisfy the medical rules validation program are recorded and the information is passed for payment. The file consists of 210 reels of magnetic tape.

Dependents of subscribers are not pre-registered on the Subscriber database. Contracts that are registered are classified as either single or family. Subscribers and dependents are termed participants and are recorded from details on claim cards submitted to OHIP by providers of services.

Participants' identification on an incoming claim is compared to participants' identification previously recorded. A match condition results when first name, sex and birth data agree. Where, however, a match does not occur a new participant is created.

Submission of inaccurate or differing information by the provider of the service can, therefore, result in a participant being recorded more than once. When this occurs many of the claim analysis controls in the computer program will not be effective, and overpayments and duplicate payments can result.

The extent of inaccurate information submission and its possible adverse effect on the detection of overpayments and duplicate payments are illustrated by the number of participants recorded on the Claims Reference File. **As of June 30, 1987 there were 24.68 million participants on this file whereas, according to Statistics Canada, the population of Ontario was 9.16 million.** In addition, the physical size of the file had storage and processing cost implications.

HEALTH RESOURCES REGISTER

Overview

This Register contains records of information on all practitioners who are eligible to bill OHIP for health care services that they administer to Ontario residents. Practitioners include physicians, dentists, optometrists, osteopaths, chiropractors, chiropodists and approved physiotherapy facilities. Only those practitioners registered can receive payment from OHIP.

Active Practitioners in OHIP
April 30, 1987

Physicians	17,888
Dentists	1,693
Optometrists	800
Osteopaths	23
Chiropodists	93
Chiropractors	1,384
Physiotherapy Facilities	120
Total	22,001

Verification of Registered Physicians

Since 81 per cent of the registrants were physicians, we attempted to verify that all were licensed to practice medicine in Ontario and thus entitled to receive payment from OHIP. We obtained a computer file of all active physicians from the College of Physicians and Surgeons of Ontario. We developed a computer program to compare the College file to the physicians registered on the Health Resources Register database, using the physician licence number as the matching criterion.

In addition to performing this file comparison we also developed computer programs to analyze the integrity of the data on the Health Resources Register.

Our comparison and analyses disclosed the following anomalies and the information concerning these was passed to Head Office Registry management for investigation and resolution.

Unmatched Licence Numbers

Nine physicians listed on the Register as "active" and licensed to practice medicine in Ontario were not listed on the College file.

Duplicate Licence Numbers Recorded for Physicians

Eight physicians were listed on the Register with the same College-issued licence number as eight previously registered physicians. Each of these individuals had different surnames and different OHIP physician numbers from the previous registrants.

Physicians Registered Twice

Eleven physicians were listed on the Register with two different OHIP physician numbers. In two of these cases both physician numbers showed an "active" status.

Discrepancies in Surnames and Deceased Status

Our comparison of the College file with the Register disclosed 11 physicians that had the same licence number on both files but the surnames were different.

Nineteen physicians were recorded on the Register as deceased but were still shown on the College file.

We recommended that OHIP management periodically reconcile the information recorded on the Register with the data held by the various practitioner Colleges.

OUT OF PROVINCE HOSPITAL CLAIMS SYSTEM

Overview

This system processes claims for hospital services obtained by OHIP subscribers from out-of-province hospitals. Services include hospital room and board, emergency room treatment and associated services such as laboratory work and radiology.

Out-of-province claims are divided into two categories, namely, claims originating from other provinces within Canada and those from

outside Canada. The majority of processed claims are from locations outside of Canada as all of the provinces have entered into a Reciprocal Billing Process Arrangement.

Under current OHIP policy, the payments for out-of-province hospital services are not geared to a fee schedule but based on a percentage of what the out-of-province hospitals actually charge. Emergency treatment is reimbursed at 100 per cent and elective treatment at 75 per cent.

Considering that other countries, particularly hospitals in the U.S.A., charge significantly higher rates than Ontario hospitals, the province has been paying substantial sums of money to hospitals abroad.

In the 1986 fiscal year, approximately $40 million was disbursed for out-of-country hospital payments through the Out of Province Hospital Claims System.

Substantial Out-of-Country Payments for Long-Term Psychiatric Patients

OHIP policy on out-of-province hospital coverage does not exclude reimbursement for medical conditions that are long-term in nature. However, the policy is directed towards returning the patient to Ontario as soon as possible without jeopardizing the patient's health or the treatment procedure.

OHIP management had accomplished significant reduction in the number of long-term out-of-province patients in the past few years, particularly those receiving psychiatric treatment. However, during our examination of the computer claims file, we observed several cases of psychiatric patients in hospitals in the U.S.A., most of which incurred costs of hundreds of thousands of dollars to the OHIP program. Two of these are especially noteworthy.

In one case, records show a patient was first admitted to hospital in 1972. Claims appear to have terminated in December 1986. Over the 14 years, OHIP paid hospital costs in excess of $500,000. In a second case, a patient was placed in a mental institution in the U.S.A. in 1979. OHIP had paid $520,000 for hospitalization over the past seven years, and monthly costs of approximately $7,200 continued to be paid at the time of our audit.

The availability of treatment in Ontario raises doubts as to the need of treatment in profit-motivated institutions outside the province. While OHIP policy fully protects Ontario residents anywhere in the world and is regarded as one of the best medical insurance plans available, it lacks guidelines on what constitutes a continuation or the termination of coverage for long-term treatment.

Substantial Costs Incurred for Out-of-Country Alcohol and Drug Addiction Treatment

Analysis of the out-of-province hospital claims for the calendar year 1986 showed that $3.3 million was spent, primarily in the U.S.A., for the treatment of alcoholism and drug addiction.

Treatment for alcoholism and drug abuse is generally elective, pre-planned and excludes drug or alcohol induced psychoses of an emergency nature. However, OHIP policy does not discourage nor does it limit the seeking of treatment abroad.

Given that many American treatment facilities operate on a "for profit" basis and OHIP policy is to pay 75 per cent of whatever is billed, the question of due regard for economy is raised. The treatment used in many of these facilities is one developed in a well-known Toronto clinic. It was also noted that one clinic in New Hampshire advertises for patients in the Yellow Pages of the Toronto Telephone Directory and lists itself as being OHIP-covered.

There was no satisfactory explanation as to why physicians referred their patients to out-of-country facilities for treatment.

Inaccurate Data Recorded

Out of Province hospital claims submitted to OHIP for payment should provide essential data to determine the eligibility of the claim and assessment of the claim amount. For example, name and sex of the patient, OHIP account number, hospital admission and discharge dates, codes for procedures performed by the medical professionals, diagnosis, etc. The computer system validates the information and prepares a cheque payment requisition from the data.

We developed a series of computer programs to test the validity of essential data. Our tests covered the period January 1985 to March 1987 and revealed over 200 instances of inaccurate data, including hospital admission date subsequent to the date of death (27), overlapping hospital periods for the same patient (43), and patients with diagnoses specific to the opposite sex (72).

We acknowledged that the computer system could not accommodate all imaginable conditions to validate the claim information required for determining the eligibility for payment. However, erroneous information concerning critical data should be detected in the process of assessing eligibility and reasonableness of fees. Most, if not all of the cases observed should have been rejected by the system and subjected to further review.

RESPONSE

The Deputy Minister replied to our comments and recommendations on October 15, 1987.

GENERAL

"The weaknesses in the (OHIP computer system) outlined in the report have been longstanding and relate primarily to the original design architecture of the plan based on a family registration system. Recommendations for improvement in these systems are contained in proposals for a major redevelopment of OHIP systems now before the Management Board of Cabinet."

Comments on Ministry Audits

SUBSCRIBER ADMINISTRATION SYSTEM

Good Faith Policy

"In the administration of OHIP through the District offices across Ontario care is taken to be sensitive to the unique problems faced by families and individuals.

"The Good Faith Policy exists to provide that patients receive necessary health care and ensure that practitioners are reimbursed for professional services rendered. OHIP numbers presented by patients may be invalid for a number of reasons. These would include a new group registration through a change of employment, a change in marital status or a lapse in coverage due to premium payments being in arrears.

"OHIP administration carried out a verification review of the "good faith policy" in 1984, the results of which indicate that in 80 percent of such cases, patients had their OHIP coverage in good standing."

Excessive Number of Participants on the Claims Reference File

"Inactive OHIP numbers are removed from the database of the subscriber administration system at the end of 7 years. Families and individuals often obtain a new OHIP number as a consequence of a change of employment, marital status or reaching the age of majority. As well, new file entry could be created when there is not a match on data relating to first name, sex and birth.

"All Ontario residents are entitled to OHIP benefits. The system is designed to reimburse practitioners for insured services. The premium system also identifies situations where coverage payments may be in arrears and to follow-up in such circumstances. Internal reviews by OHIP have indicated that the system operates effectively."

HEALTH RESOURCES REGISTER

Verification of Registered Physicians

"The problems identified in the physician registration system have been corrected. A review of the specific findings by OHIP since receiving the report indicates that no inappropriate payments were made in relation to the registration problems identified.

"OHIP is in the process of working with the respective colleges to improve the system's incorporation of college registration numbers. A periodic review process is also being put in place."

OUT OF PROVINCE HOSPITAL CLAIMS SYSTEM

Substantial Out-of-Country Payments for Long-Term Psychiatric Patients

"The number of psychiatric patients receiving care outside of Canada has decreased substantially in recent years. Periodic medical reports are received by the General Manager of OHIP with regard to patients who continue to receive care outside of the country."

Substantial Costs Incurred for Out-of-Country Alcohol and Drug Addiction Treatment

"The Ministry anticipates that the use of addiction services will decrease significantly in the future. The Ministry has in recent years taken a number of significant actions to encourage health care providers and their patients to utilize less costly Ontario facilities and modes of treatment as opposed to the more expensive residential treatment programs in the United States.

"The Ministry has in the past two years:

- Enhanced services by making 264 community beds available and accessible to clients at no charge;
- Approved 24 new programs for funding;
- Allocated an additional $5 million to establish new addiction treatment services for youth;
- Allocated $0.75 million for prevention and promotion;
- Allocated $3.5 million for new and enhanced addiction services in the north.

"A total of 92 community based addiction programs are currently funded within the 1987/88 budget of $22 million and further expansion of these programs is planned."

Inaccurate Data Recorded

"With regard to your observation concerning inaccurate data on the assessment master file, the Ministry agrees that the computer programs need to be re-examined and that improved discipline is needed in the data entry function and in data entry edit programs. These needs have been identified as part of the OHIP Program Development Project. It is the Ministry view, based on the information available to us, that these errors occurred as a result of data entry errors and not as a result of improper claims being submitted."

4.9 Problems in Mental Health Care, Ministry of Health

The Mental Health Area of the Ministry of Health is responsible for the overall delivery of mental health care in the Province.

Expenditures of the Ministry's Mental Health Program totalled $490 million in the 1987 fiscal year (Vote 3104).

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess the adequacy of arrangements to provide and manage mental health care services, including:

the operations and facilities of Provincial Psychiatric Hospitals,

- community-based services, housing and Homes for Special Care, to the extent they impact on the operations of the psychiatric hospitals and mental health care generally; and

- efforts by the Ministry to plan and coordinate the delivery of mental health care.

The focus of our audit was the Provincial Psychiatric Hospitals. However, our audit also included a review of several major research studies and statistical reports, interviews with numerous mental health care professionals, and visits to a number of general hospital psychiatric units and community-based clinics and housing facilities, including private boarding homes.

CONCLUSIONS AND FINDINGS

PROVINCIAL PSYCHIATRIC HOSPITALS

When compared to the psychiatric wards of general hospitals, there appeared to be little scope for significant cost reductions in the operation of psychiatric hospitals. Years of funding constraints and a decreasing emphasis on institutional care, while limiting growth in psychiatric hospital costs, have contributed to a number of significant problems. For example:

- **A very stressful work environment combined with less attractive compensation arrangements limited the ability to attract and retain professional staff. Under these conditions, which have adversely affected patient care, the level of dedication displayed by staff was remarkable.**

- **Many psychiatric hospitals are very old and the facilities were below the national standards for general hospitals. Many wards had insufficient privacy and washroom arrangements.**

While there was little scope for major cost reductions, we did note a number of areas which had potential for savings and improvements:

- **The increasing use of patient restraints, confinement, and one-to-one observation is very costly. Only one hospital had taken steps to reduce the cost of this type of care, with encouraging results.**

- **Nursing represented over 50 per cent of the cost of staffing Provincial Psychiatric Hospitals yet the existing systems for planning and assessing the level of nursing resources were inadequate;**

- **Methods of providing and managing dietary and housekeeping services were weak.**

- **Studies indicated that about 25 percent of patients would not have to be in a psychiatric hospital if adequate housing and support facilities were available.**

HOUSING AND COMMUNITY SERVICES

The movement to deinstitutionalize psychiatric patients has created a growing need for community-based housing and supportive services.

Shortages of housing and services often cause discharged psychiatric patients to relapse and be readmitted to hospital. High occupancy rates in hospitals have forced many patients into the community without the necessary support. The result has been a "revolving door syndrome" at psychiatric hospitals.

Specifically, our review indicated that:

- **There was a shortage of good quality affordable housing for the psychiatrically disabled. Most housing alternatives offered no rehabilitation therapy. These problems have been recognized and some initiatives to improve housing were underway.**

- **Residential care homes are a poor alternative to current housing problems since they are not required to provide support services. Because of shortages in facilities, some were permitted to operate despite failing to comply with conditions of their licence.**

- **Despite funding increases for such community mental health services as supportive housing units, workshops and clinics, there continued to be a shortage of services across the Province.**

PLANNING AND COORDINATION

The Ministry lacked the information necessary to plan and assess the operations of both psychiatric hospitals and community mental health programs. While improvements were underway, more needed to be done.

COMMENTARY

Background

Effective delivery of mental health care depends upon planned and coordinated efforts of all components of the delivery system.

This delivery system is large and complex, consisting of:

- 10 psychiatric hospitals;

- 64 psychiatric wards in general hospitals and an additional 111 other psychiatric facilities ;

- 243 organizations delivering up to 375 various community-based services .

- 466 Homes for Special Care, providing care for 5,000 residents.

The Mental Health Area of the Ministry employs some 8,200 staff, with all but a few located in the Provincial Psychiatric Hospitals.

There are also numerous outside planning bodies, associations, volunteers and patient advocacy groups, as well as approximately 1,200 psychiatrists in private practice in the community.

Patients and Services

A recent study suggests that 8 per cent of the Ontario residents in any year receive medical services for a psychiatric diagnosis. Other research suggests that approximately one in five suffer from some form of mental health disorder.

For the treatment of these problems there are several medical avenues available including visitation to private psychiatrists or admission to institutions such as general hospital psychiatric units, Provincial Psychiatric Hospitals and other specialized psychiatric facilities.

In addition to institutional care, there are other community-based support facilities available to patients who are best able to benefit from them. These are operated by various non-profit organizations and are financially supported by the Ministry and other government sources. Facilities include subsidized homes and out-patient clinics to provide therapy while patients reside in the community.

The move away from institutional care became possible in the early 1960's with the development of psychotropic medications. These drugs control many symptoms of mental disorder and reduce the need for hospitalization. This gradual shift in emphasis to community-based care has significantly reduced the number of hospital beds in psychiatric hospitals from 15,000 in 1960 to 4,237 at March 31,1986. This reduction was only partially offset by the increase in general hospital psychiatric beds from 431 to 2,274 during the same period.

Studies have shown that prolonged hospitalization aggravates the behaviour and symptoms of the mentally ill. Further, it does not promote independence because patients are not required to apply the skills needed for day-to-day living. However, there will always be patients who are so severely ill that they need chronic hospital care to protect both themselves and society. A recent paper published in the New England Journal of Medicine estimated the proportion of such patients was approximately 15 per 100,000 people.

PROVINCIAL PSYCHIATRIC HOSPITALS

Overview

For the 1987 fiscal year, funding for the operation of the psychiatric hospitals included $254 million for salaries and employee benefits, approximately 50 per cent of which pertains to nursing.

Little Scope for Significant Cost Reduction

Using the psychiatric units in general hospitals as a benchmark, we concluded that there was little scope for a major cost reduction in the operation of psychiatric hospitals. Even though they treated more difficult patients, psychiatric hospitals had fewer

nurses and less costs per patient than general hospital psychiatric units. Remuneration of various professional groups was also generally lower in psychiatric hospitals than in the market-place.

Inferior equipment resulted in higher maintenance costs and labour-intensive, inefficient operations. The telephone systems, particularly critical in emergencies, used outdated technology and were not reliable. The space per patient was approximately one-third of that recommended by the National Health and Welfare guidelines for general hospital psychiatric units.

Work Environment and Lower Compensation Caused Shortages of Professional Staff

Recruitment and retention problems were acute for most key groups of professionals who provide mental health care. For example, position vacancy rates for occupational therapists and pharmacists were 25 per cent and 37 per cent respectively at the time of our audit. Turnover rates ranged from 13 per cent for nurses to 30 per cent for non-supervisory occupational therapists. Psychiatrists were particularly scarce in Northern Ontario. At Lakehead Psychiatric Hospital for example, there was only one psychiatrist for every 80 beds, whereas Queen Street Mental Health Centre had one psychiatrist for every 17 beds.

In general, these problems existed because psychiatric hospitals had a poor image, lower salary levels than other medical facilities, and greater stress associated with a difficult mix of patients with behavioural problems. One of the more important factors was the feeling of hopelessness experienced by the staff because of the high readmission rates.

Another factor identified during our visits to hospitals was inadequate staff training related to the management of disturbed behaviour in patients and of employee stress.

Many Facilities Were Substandard

The condition of many of the psychiatric hospital buildings and facilities was well below the standard expected in general hospitals. Many of the buildings are old and in some cases, deteriorating. For example, five of the psychiatric hospitals were opened prior to 1904 and many of the original buildings were still in use.

During our visit to three hospitals, (Queen Street Mental Health Centre and the Whitby and North Bay Psychiatric Hospitals) we reviewed the adequacy of the individual wards. All of the self-contained wards visited were overcrowded. Most had one-third the total unit area per bed established by the National Health and Welfare guidelines, yet some wards contained very large recreation areas. These observations were in sharp contrast to the general hospital psychiatric units we visited.

We observed that hospitals had problems in patient privacy protection, washroom facilities, temperature control and ventilation. Together these inadequacies created an uncomfortable environment which contributed to patient

instability and disturbed behaviour. Some of the more blatant examples we noted were:

- male patients rooms neither enclosed nor separated from female rooms. Access to one required walking through the other;
- unenclosed toilets and toilet stalls not wide enough to allow for proper access by disabled patients.
- bathtubs without curtains in common washrooms; and
- insufficient washbasins, toilets and bathing facilities to accommodate patient needs. In one ward, for example, 13 women shared one bathroom equipped with only two toilets, one sink and no bath.

We were informed that some renovations and improvements were being made in the psychiatric hospital dormitories and washroom facilities in order to improve patient privacy. However, heating and ventilation problems would be expensive to solve because of the age of the buildings. Therefore, improvements will probably have to wait until facilities are redeveloped. In this regard, studies of the Whitby hospital recommended rebuilding as far back as 1977. Redevelopment has been recently initiated and the hospital will be rebuilt over the next several years. A recent redevelopment study of the North Bay hospital was still under review by the Ministry.

Incidence of Patient Restraints Strained Nursing Resources

Physical restraints are used to protect or ensure the safety of any patients who are considered a danger to themselves or others. As a matter of clinical policy, restraints are only to be used as a last resort. The use of restraints or confinement of a patient in a locked room under constant observation usually requires a physician's order and nurses to provide one-to-one monitoring of the patient.

Nursing administration in one psychiatric hospital determined that it required five to six staff to provide one 24-hour day of one-to-one observation. Hence, this type of care required a large commitment of staff time, permitting less time for other important tasks such as developing treatment programs for other patients.

Use of these labour-intensive methods was increasing as hospitals were encountering a greater number of patients in severe states. Furthermore, the physicians were increasingly less willing to prescribe medication in the care of these people, particularly where the full medical history of the patient was unknown or the patients' testimonies about their physical condition were not considered reliable.

However, some innovative methods were being tried to improve the use of nursing resources. For example, at Whitby, a self-contained Intensive Observation and Treatment Unit was set up in February, 1986. It had a staff to patient ratio of 1:3 and isolated the individuals who were severely disturbed. It was designed to achieve rapid control of disturbed behaviour in a patient in order to allow the patient to beneficially continue with other treatment programs.

Initial results were encouraging in terms of reduced restraint, staffing and patient injuries. Whitby nurses felt that these changes had freed them to carry out more psychotherapy and to develop better patient programs. From our interviews at Whitby and at other hospitals we found a growing consensus that these units could improve nursing efficiency and effectiveness in many hospitals. We were informed that Lakehead and North Bay psychiatric hospitals were considering such units.

Inadequate Information for Planning and Assessing Nursing Resources

There was no satisfactory method available to compare staffing levels at one psychiatric hospital to another nor to determine the optimal level of staffing in terms of staff efficiency and quality of patient care.

A proper patient classification system ranks individual patients according to several major components or levels of care they require. This data would then be used daily by nursing administration to determine any required staffing changes.

Only six of the hospitals were using a patient classification system. Most of them used a system designed by the St. Thomas hospital. However, because this system had not been tailored to the needs of the other hospitals, the head nurses were not satisfied.

Given that 50 per cent of the psychiatric hospitals expenditures related to nursing, we recommended that the Ministry implement clearly defined and consistent patient classification systems and staffing standards for all psychiatric hospitals.

Weak Management of Dietary and Housekeeping Services

A 1984 Ministry document reported that a majority of the housekeeping and dietary managers had not introduced standards to measure work performance, nor had they introduced other methods to improve the quality and efficiency of their departments. The lack of innovation in these departments was attributed to a number of factors including weak management, a lack of appropriate knowledge and ineffective training.

The report further stated that using contract management would provide the opportunity for managers to learn essential skills so that hospital staff would be able to take over within two to four years. The expected net saving for the seven psychiatric hospitals reviewed in the study was $1.5 million, equivalent to a full-time staff reduction of 120.

A 1983 internal document also noted that a staff reduction of between 10 to 15 per cent was possible with the implementation of contract management in dietary and housekeeping services.

At one hospital, a recent consultant's review of the housekeeping department concluded that there were no training programs, no performance standards, outdated practices, lack of implementation of documented procedures, poor quality of

work, and an absenteeism level of 8 per cent per year. The report stated that "current management had been totally ineffective".

While numerous studies have been conducted and recommendations made, the ministry has been unsuccessful in implementing these recommendations.

Some Patients Did Not Need to Be in a Psychiatric Hospital

Our interviews, as well as a number of studies, indicated that there were patients who no longer required in-patient care and who could be released to the community if adequate housing and support facilities were available. Further, most hospitals did not have adequate preassessment or screening processes to ensure that patients who could be more appropriately cared for elsewhere were not admitted.

At the Queen Street location, a recent study of a selected sample of patients indicated that 16 per cent of these people could have been released. At the North Bay hospital, a recent study suggested that 43 per cent could have been released if alternative settings had been available. **A 1983 study which reviewed three other hospitals indicated that 25 per cent of patients in those hospitals could have been released to alternative settings.**

Some of these blocked beds were occupied by psychogeriatric patients who could no longer benefit from psychiatric services. However, they could not be moved because of a shortage of chronic care and nursing home facilities and because of the strong reluctance by operators of these facilities to accept psychogeriatric patients.

Available statistics indicate that the psychiatric hospitals are becoming clogged, with occupancy rates averaging 90 per cent. In addition, the average length of stay is increasing. At Queen Street for example, the average length of stay had increased by 18 days in the last five years and the occupancy rate had averaged 97 per cent over the same period.

The situation is likely to deteriorate further in the near future. Demand for mental health services is increasing for a variety of reasons, including drug abuse and demographics (increasing numbers of people in age groups more likely to be afflicted with mental illness).

HOUSING AND COMMUNITY SERVICES

Overview

Many patients have lost contact with their families and can no longer reside with them. Further, many have poor vocational skills which limits their potential for employment and self-sufficiency. In fact, on discharge, many patients lack the basic life skills to live independently even with financial security. Currently, most discharged patients are sheltered in three distinct types of homes - boarding, residential care and supportive.

Boarding Home Inadequacies Contributed to Readmissions

Background

A boarding home in this context means a privately owned home where ex-patients and others reside and pay rent. Some municipalities have bylaws which require the homes to meet stipulated standards prior to being licensed. There were no records of the number of licensed boarding homes across the Province. **An estimated 2,000 ex-psychiatric patients were housed in boarding homes in Metropolitan Toronto alone.**

Shortages of Affordable Housing

A very tight housing market and comparatively low income has forced many discharged patients into extremely low standard housing. The reality of inadequate meals, unsanitary conditions and overcrowding in these low standard homes has been a major cause of relapse, leading to high readmission rates in the psychiatric hospitals.

The recent boom in the real estate market has created a crisis situation for rental accommodation in large urban centres, particularly in Metropolitan Toronto. For the urban areas surrounding the hospitals we visited, the following vacancy levels were quoted by the Ministry of Housing for the last quarter of 1986:

Metropolitan Toronto	0.1%
Whitby	0.0%
North Bay	0.7%

Toronto's Assessment Referral Unit at Queen Street Mental Health Centre looked at the availability of rooms in 1984, 1985 and 1986. **A marked reduction was noted in the number of suitable rooms for psychiatric patients over the three-year period.** For example, the average daily number of beds available for clients decreased from 14 in October 1984 to 1.6 by October 1986. It was further concluded that demand had pushed the cost of accommodation beyond the reach of the average patient.

Based on discussions with boarding home operators and a Queen Street Mental Health Centre study, we established that the average rent charged for a room was at least 76 per cent of a resident's income. This was clearly unaffordable to the client population whose only source of income was either General Welfare Assistance or Family Benefits Allowance.

Lack of Rehabilitation Assistance

From a rehabilitative point of view, these homes were unsuitable. Home operators were not required, and in most cases had no particular training or aptitude, to provide care for discharged psychiatric patients. Rental rates covered room and board only. Few were regulated or monitored by any authority.

Landlords Handled Boarders' Funds

Along with the quality of care problem, there was also the problem of landlords handling boarders' funds. The Community Advisory Board at Whitby Psychiatric Hospital had noted that: "... usually the operator receives the mail and takes the Family Benefits cheque, gets the boarder to sign it, then does the banking, keeps money for the rent

and only gives the boarder the change. They may subtract money for extras such as long-distance calls without showing the boarder the bills . . . Others say there are delays getting their money . . ."

Some Actions Underway

On the positive side, a number of initiatives were underway to alleviate the shortcomings of boarding homes. For example:

- Some home operators had developed an ongoing relationship with the hospital workers where their joint efforts had resulted in better care and more congenial environments in the homes.

- Some municipalities had attempted to regulate boarding homes. For example, the Town of Whitby has a detailed bylaw stipulating standards in such areas as nutrition, hygiene, staffing levels, first aid equipment, resident records and room lighting. Toronto has a similar bylaw but it is not as detailed.

- In October, 1986, the Minister of Housing announced a special provincial initiative to provide funds for the development of 3,000 special purpose housing units to be targeted towards the neediest and the hardest-to-house individuals.

- A similar initiative, the Boarding Home Contract Program, was announced by the Minister of Health in April 1985. This Province-wide program provides $1.5 million to upgrade boarding homes where the majority of residents are discharged psychiatric patients.

Residential Care a Poor Alternative

Background

The Homes for Special Care Program was established in 1964 to provide care to individuals who no longer require intensive hospital treatment but need some nursing or supervision.

One component of this Program relates to Residential Care, which was provided to some 2,000 discharged psychiatric patients, in 253 privately-owned homes. To cover their costs, residential operators were paid approximately $21 per patient day by the Ministry.

Licensing Requirements Not Met

Twenty-five or approximately 10 per cent of the residential care homes were deemed unfit to have their licences renewed for 1986, primarily for violations detected by the Fire Marshal's Office. Nevertheless, because of the shortage of housing alternatives, they were allowed to continue operations.

Support Services Inadequate

The living conditions in these homes were much better than what was normally found in the private boarding homes. However, our visits with 10 home operators indicated that the level of care provided varied considerably among various homes. More significantly, these homes were not required to provide rehabilitation therapy and did not promote patient independence. Therefore, many homes were quasi-institutions. The Ministry stated that little or no mental health

programs had been implemented to enhance the quality of life of residents nor to assist them to realize their full potential for rehabilitation in the community.

As a result of the findings of a study conducted in 1984, the Ministry decided not to issue any new licences under the Homes for Special Care Program and, where possible, upgrade the homes to provide a better level of care.

More Supportive Housing Needed

Several non-profit charitable organizations had acquired residential homes to house the discharged patients. The cost of accommodation was subsidized by various ministries and agencies of the Province, as well as other levels of government. These homes, supervised by community workers, provided levels of support and supervision ranging from 24-hour care to independent living.

The individuals were expected to participate in rehabilitation programs and other meaningful activities, such as attending school and working. Because of this well-supported and integrated approach to "after-care", supportive housing is considered to be one of the best therapeutic approaches to improve patient rehabilitation and promote long-term self-sufficiency.

Although the number of supportive housing beds increased from 300 to 1,000 over the five years ending March 31, 1987, there was still a large gap between need and availability. The magnitude of the need could be judged by the number of discharged patients living in commercial boarding homes, hostels and the Homes for Special Care, as well as patients that could be released from psychiatric hospitals if sufficient supportive housing were available.

The Shift to Community-Based Care Should Continue

It is recognized that the lack of basic life skills and social isolation are the two most important characteristics that plague the mentally ill.

Community-based care places greater emphasis on the life and social skills needed to live independently, while providing the required medical treatment. Greater expectations are placed on the patients to perform their own day-to-day routine. Research studies have concluded that the possibility of rehabilitation and successful integration into the community is much more likely in a community-based setting.

For instance, a 1983 research paper entitled "Wisconsin's System for Funding Mental Health Services" indicated that providing a greater portion of available funding to community-based support programs reduced hospital readmission rates significantly. At 25 per cent, Wisconsin's readmission rates are one half of Ontario's, with over 80 per cent of funding having been spent on community-based services.

However, like most North American jurisdictions, Ontario has traditionally emphasized institution-based care. With this in mind, the Ministry's Community Mental Health Services Program was

established to fund adult rehabilitation and support services and reduce emphasis on institutional care. These services are provided through community-based supportive facilities and a network of social, vocational, recreational and medical clinics for psychiatric patients discharged from the hospitals.

While community-based support funding was a relatively low component of the Mental Health Program budget, in the five years ending March 31, 1987, the number of support facilities has more than doubled to approximately 375 and funding has shown a sevenfold increase to $76.5 million.

Even given this significant increase in funding, there was still a serious lack of adequate community services available in the Province. For example, there were only four facilities providing social and recreational support to discharged psychiatric patients in Northeastern Ontario.

Little vocational training and support was available. A recent study estimated that more than twice that number of facilities was required and that vocational training needed to be expanded. Although Toronto offered a wide variety of community programs, studies have shown that there were still not enough to meet the demands of the region.

Although some research studies have attempted to compare the costs of community versus institutional care, the results have not been conclusive. However, experiences to date have shown that for many patients community care has greater potential to be more economical in the long run, and certainly more promising for the patient.

PLANNING AND COORDINATION

Better Information Needed to Plan and Manage Mental Health Care Services

To make optimal use of available resources, the Ministry should be able to identify activities, programs and projects which would be most beneficial to the majority of the needy. Ideally, there should be an optimum mix of efficient hospitals, community facilities and specialized treatment centres, all strategically located throughout the Province. **At the time of our review the Ministry did not have the comprehensive information system needed to collect sufficient data either for managing existing facilities and services or for planning new ones.** Better information is needed both from inside and outside psychiatric hospitals.

Within Psychiatric Hospitals

Deficiencies in the collection and use of management information include:

- As already discussed, systems were inadequate to determine the appropriate level of nursing staff needed yet nursing was the most significant cost component. Information that was collected from the psychiatric hospitals was neither consistently presented nor reliable and therefore was not used by the Ministry to compare facilities.

- Statistics about the level of outpatient activity were not reliable because these services had not been consistently defined and measured. Consequently, information about both staff workload and service demands was inaccurate.

- Analysis and comparison of information between psychiatric hospitals was not done by the Ministry. When we asked about the reasons for differences among psychiatric hospitals, we were informed that they result from differences in the type of patients treated and in the clinical practices of each institution. However, even comparative information concerning the costs and quality of housekeeping and dietary services was not routinely collected and used for comparison among hospitals. These services were less dependent on clinical practices.

- Although information about the cause of readmission and the referral source was available for each patient, this information was not accumulated and used for management purposes. Causes of readmission may include ineffective discharge planning, inadequate follow-up, a shortage of housing and services, or a normal characteristic of the patient's illness. The distinctions are important if appropriate action is to be taken.

- Some important statistics were misleading. For example, figures for the length of patient stays were based only on patients who were discharged. As a result, wild fluctuations occur when longer term patients are released. Also, the time a patient remains in hospital after having been judged fit for discharge would be a useful insight into the appropriateness of lengths of stay.

Outside Psychiatric Hospitals

There was currently no accurate and reliable system to estimate the potential extent of the demand for new community mental health services. It was therefore difficult to locate future facilities and services on the basis of most critical need. In addition, the Ministry needed more information about the effectiveness of the community-based services it has funded.

The Ministry had recognized some of the deficiencies in the management information system. At the time of our audit, systems had been installed in three of the psychiatric hospitals. The rest were scheduled for completion prior to May 1, 1988. The Ministry was developing a community programs system but it had experienced problems which had yet to be resolved.

Our draft report on this audit was provided to the Ministry on August 31 and subsequently discussed with Ministry staff. Because of difficulties experienced in scheduling this discussion we were unable to issue our final report by September 30.

4.10
Weak Management Practices, Mines and Minerals Program, Ministry of Northern Development and Mines

The objective of the Mines and Minerals Program is to encourage and regulate the orderly development and use of the Province's mineral resources. The 1987 fiscal year expenditures for this Program were $41 million (Vote 2404).

Comments on Ministry Audits

Functions within this Program include the Ontario Geological Survey and Mining Recorders. The former collects, analyses and publishes geological data while the latter are involved with the administration of the Mining Act.

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives included the assessment of:

- management practices, including project selection, of the Ontario Geological Survey; and
- activities of the Province's Mining Recorders and the security of claim records.

CONCLUSIONS AND FINDINGS

ONTARIO GEOLOGICAL SURVEY

Although great emphasis had been placed on the quality and reputation of their work, management had not given comparable attention to the selection and management of projects. Some of our specific concerns were that:

- **Management had not set long-term goals and operational plans against which their performance could be assessed.**
- **The process of selecting and ranking geological projects was informal. It was often not clear why certain projects were selected over others.**
- **Ongoing project management was weak, resulting in excessive delays in project completion and significant backlogs.**

MINING RECORDERS AND RECORDS

A number of significant organizational and system changes were underway at the time of our audit. However, we felt that future improvements should address the need for consistent and efficient administration of mining lands and geological data as well as the protection of claim records. More specifically:

- **Administrative procedures needed to be clarified and updated to ensure service and enforcement objectives would be consistently applied across the Province.**
- **Security over mining claim records was inadequate. Loss of these records would be catastrophic as no duplicate records of these claims were kept.**
- **Over 1,750 mining claims should have been forfeited and made available for other potential claimants but were not because of recording errors in claim records.**
- **Fees charged under the Mining Act for various services and permits had not been updated since 1906. Revenues could be increased by over $1 million annually through increasing fees to levels similar to those being charged by other provinces.**

COMMENTARY

ONTARIO GEOLOGICAL SURVEY

Background

The Ontario Geological Survey is located in Toronto and has 97 full time staff. Operating expenditures in the 1987 fiscal year were $11 million.

Geological data is published by the Survey to facilitate mineral resource exploration and provide a basis for planning and developing the Province's mineral resources. A recent review by the Canadian Geoscience Council concluded that these publications were of high scientific quality. However, the overall efficiency and effectiveness of the Survey operations was not addressed by this review. Our concerns lay in this area.

Performance Goals and Plans Unclear

Our examination of project specifications and discussions with senior management revealed that:

- Planning focused primarily on determining resource requirements given prior years' funding levels. Comparisons of planned results to actual results were not made or considered when drafting plans.

- While annual work plans were prepared, these could not be related to any specific program objectives because none had been formulated. We would expect work plans to be tied directly to specific geological priorities and productivity targets.

Lack of specific objectives made it difficult to determine whether the Survey was meeting its mandate in a systematic and efficient manner.

Project Selection Process Not Well Documented

Potential projects must be ranked to ensure those undertaken will be the most beneficial to the mining industry and, ultimately, the Province.

Geologists and their Section Chiefs meet each year to develop possible geological projects. The rankings are forwarded to the Director who, in consultation with the Section Chiefs, approves the projects that will be included in the annual work plan.

Our examination of the project selection and priority setting process disclosed little documentary evidence of why certain projects were selected over others.

We were advised that while the process was informal in nature, all projects were evaluated against criteria such as economic stimulation, industrial needs and mapping requirements. However, because these criteria were not recorded, it was impossible to determine if all projects were evaluated against the same criteria. The point was also made that sufficient projects were selected to ensure all staff geologists were assigned a project.

In contrast, we noted that the selection process for projects requested and funded externally was more formal than for projects funded by the Ontario Geological Survey. To obtain approval for externally funded projects, the Section Chiefs must prepare a formal project proposal outlining the specifics of the project and a justification statement. This is similar to the requirements of the Alberta Geological Survey, which requires a formal presentation outlining scientific merit, anticipated benefits derived and estimated cost for all proposed projects.

In our opinion, the project selection process should have been more formalized. Since many of the decisions were subjective, formal proposals which addressed the various criteria, justifications and cost/benefit analysis should have been required for all projects. Not only would the proposals have served to document the rationale for mapping certain areas, but also they would have been useful in periodically assessing whether the projects generated the expected benefits.

Significant Project Backlogs and Delays

Because of the importance of timely information, we assessed the status of a number of recent projects. **Our review revealed excessive delays in completing project reports and maps and significant backlogs.**

Typically the first stage of a project is for the staff to visit the selected area to collect geological data. The field work is done in the summer months with a typical project taking one or more years of field work. Because of the time required to prepare and edit formal reports and maps, a Summary of Field Work is released, followed by Preliminary Maps and an unedited Open File Report, in order to provide the public with some timely information.

Project monitoring was largely informal. Reporting on the current status of individual projects was infrequent. Consequently, neither management nor ourselves could easily determine the status of backlogged projects. We therefore requested staff to provide us with the current status of the projects listed in the 1985 Summary of Field Work. Out of the 64 projects listed, staff could provide us with the status of only 39 projects. The status of the remaining 25 projects could not be readily ascertained without a lengthy and detailed search.

In February 1987, 15 months after the release of the 1985 Summary of Field Work, the status of the 39 projects and related manuscripts was as follows:

- four projects had Open File Reports issued;
- four projects had Open File Reports prepared but not issued pending review; and
- the remaining 31 projects were in earlier stages of preparation. However, eight of these projects did have preliminary maps issued.

As a result, even preliminary data relating to most of the geology surveyed in 1985 would not be available to the public until at least 18 months after the completion of the field work, well past planned publication dates.

To more specifically quantify the extent of project delays and backlogs, we randomly selected 13 projects for review. We noted that manuscripts for 12 of these projects had not been prepared on schedule. Delays ranged from one month to seven years.

Clearly, regard for expediency in the management of projects had been inadequate. Delays in releasing reports and maps has a real cost to the Province, both in terms of dollars spent and possible foregone or ineffective exploration activity. As the time between the geological field research and the release of the written report increases, the relevance and value of the information to industry deteriorates. Valuable exploration activity may then be lost to provinces better able to provide the timely and relevant information industry uses to make such decisions.

We identified three main factors which had contributed to the delays and backlogs:

- an inadequate project monitoring system;
- an inadequate staff monitoring/time reporting system; and
- the impact of external add-on projects.

MINING RECORDERS AND RECORDS

Background

As part of the Province's overall management of the uses of Crown land it designates certain areas for special use. All lands not so designated are eligible for mineral exploration. Individual or company prospectors conduct such exploration and are required to be registered with the Ministry and pay an annual prospector's fee.

If a prospector believes a parcel of land has mineral resources, a claim can be staked which allows the prospector the exclusive right to explore the land for mineral deposits. A $10 fee must be paid to record a claim.

However, in order to maintain a claim the land must be "worked". This means that additional or more intensive exploration or development work must be conducted, as defined by the Mining Act. If a claim has been properly maintained in accordance with the Act, the claimant may, at his option, apply for a 21 year lease on the land for a nominal annual fee.

Individuals are appointed as Mining Recorders by Order in Council and are primarily responsible for administration of the Mining Act.

The nine Mining Recorders, located in offices in each mining district, report to regional directors of the Mines and Minerals Program. These Mining Recorders prepare and maintain the only record of the ownership and assessment of work credits on Ontario's 128,000 mining claims.

Inconsistent Policies for Mining Recorder Offices

Until the Mines and Minerals Program was transferred from the Ministry of Natural Resources in 1985, each Mining Recorder was given autonomy to decide individually the extent of enforcement and service activities. **Inconsistencies resulted in both the levels of service provided and in the administration of the Mining Act. These inconsistencies, although under review by the Ministry, had not been resolved at the time of our audit.**

Our interviews indicated that Mining Recorders had been given varied direction as to whether greater emphasis should be placed on the enforcement of the Mining Act or on promoting exploration activity. **In most cases, there was no program in place to determine if claims had been "actively worked" as required by legislation. Most inspections were conducted as a result of claim disputes or upon receipt of an application to lease claimed land. The extent of inspection activity varied significantly from office to office. Policies with respect to the nature and frequency of inspection needed to be formulated and consistently applied.**

Poor Security over Mining Claim Records

Mining claim records were left largely unprotected in the Mining Recorder offices. The claim record sheets are the original and only record of both mining claims filed and of the required work performed on these claims to maintain them in good standing.

In the four recording offices visited, we noted that:

- three offices did not keep these records in a fireproof vault;
- while one office did use a vault, the public was allowed access to all records; and
- although inactive or closed files were periodically microfilmed, there was no back-up copy of active claim records.

A fire or theft of the claim records would be catastrophic. It would be virtually impossible to reestablish the claim records and ascertain the proper status, ownership and other pertinent information relating to mining claims.

We were informed that the security of these records has been a concern since space constraints were imposed some years ago. In 1986, the Ministry established a sub-committee with a mandate to investigate and make recommendations for the handling and storage of these records. At the time of our audit the sub-committee had not reported its recommendations.

Periodic Reviews of Mining Recorders Required

There had been no regular internal operational reviews performed on the Mining Recorder offices since 1980.

Essentially, the objective of an operational review would be to ensure the activities of Mining Recorders are properly and consistently conducted. Since the transfer of the Mines and Minerals Program to

the Ministry, only one operational review had been conducted, in response to a claim holder's concern with the recording of mining claims by a Mining Recorder. **The review disclosed that approximately 750 mining claims were technically forfeited but had not been recorded as such because the Recorder interpreted the Act incorrectly, acted without statutory authority and assessed work credits improperly.**

Consequently, the lands covered by these claims were not made available to other potential claimants. Rather, the Ministry was forced to uphold the existing claim until the claimant had been given sufficient opportunity to restore the claim to good standing.

In the four offices we visited, a total of over 1,000 mining claims had been similarly upheld after a review of the claim records by the responsible Mining Recorder.

In 1986 the Ministry developed a plan to review all Mining Recorder offices. At the time of our audit no offices had been visited.

Fees Last Revised in 1906

The fee schedule in use was outdated. In our review of fees we noted that:

- **Many fees, including prospector's licence fees, were last revised in 1906. Prospector licence fees range from $5 to $100. Similar fees in other provinces were 5 to 20 times higher. A tenfold increase in these fees alone would increase annual revenues by more than $1 million.**

- The fee charged to prepare an affidavit (a form of certification required primarily for claim transfers and disputes) was 25 cents which was significantly below the administrative cost associated with the service.

- Charges for telephone requests to search mining claims varied from nil to 25 cents.

- Ontario was the only province that charges a fee of less than one dollar for any services provided.

We recommended that such fees either be made realistic or be eliminated.

We were informed that management was planning to undertake a review of the current fee structure. However, fees are embodied in the Mining Act and any revision would require a specific amendment to the Act and the approval of the Legislature. Most acts permit fee changes by way of regulation, which is a simpler process.

The foregoing comments were included in a report dated September 29, 1987. Consequently, the Ministry has not had an opportunity to formally respond.

Comments on Ministry's Audits

4.11
Excess Funding and Non-Compliance with Guidelines, Youth Opportunities Activity, Ministry of Skills Development

The Youth Opportunities Activity seeks to reduce youth unemployment by providing funding for on-the-job work experience and skills training in order to make youths more employable.

In 1987, Activity expenditures were $166.7 million (Vote 3401, Item 3).

SUMMARY

SCOPE AND OBJECTIVES

Our review focused primarily on the FUTURES Program ($113.5 million) within the Youth Opportunities Activity.

Our audit was conducted at the Ministry's main office in Toronto and included field visits and audits at nine FUTURES offices, comprised of four community colleges and five Youth Employment Counselling Centres. Our objectives were to assess whether:

- adequate controls existed over the calculation and payment of grants to FUTURES offices;
- FUTURES offices were complying with program guidelines and meeting established eligibility requirements;
- procedures were in place to measure the success of the program in achieving its objectives.

CONCLUSIONS AND FINDINGS

GRANT APPROVAL AND PAYMENT PROCESS

While controls over the approval and payment process were adequate, improvements were required to ensure adequate cash management. For example, we noted that:

- **FUTURES offices were provided with $4.4 million more funds than they requested.**

NON-COMPLIANCE WITH MINISTRY GUIDELINES

FUTURES offices were often not complying with Program guidelines. These non-compliance issues were also identified by Ministry staff in their own visits to the field. For example, we observed that:

- **Preliminary and ongoing participant assessments were incomplete and in many cases did not comply with program guidelines.**
- **Participants' eligibility data, for the most part, was not verified nor in some cases retained.**

EFFECTIVENESS

While procedures were in place to measure the success of the program, the reported success rate could result in misleading information. The Ministry plans to improve the procedures.

GENERAL

We acknowledged that the Ministry had undertaken certain initiatives to improve the management of the Program such as improved communication between the Ministry and FUTURES offices. Also, each office has been visited at least once a year to provide guidance and assess its success in delivering the Program to the local community.

COMMENTARY

Background

The objective of the Program is to assist hard to employ young people, aged 16 to 24, in finding and keeping a permanent job, through counselling, skills and educational upgrading, on-the-job work experience and training.

The Program consists of two components - Pre-Employment Preparation and Work Placement.

The Program is delivered through FUTURES offices located at the Province's 22 community colleges and at 52 community sponsored organizations (Youth Employment Counselling Centres). The Ministry provides funding to these offices which in turn pay FUTURES participants directly.

GRANT APPROVAL AND PAYMENT PROCESS

Each office must submit an application for funding which is reviewed in detail by the Ministry prior to funding being approved.

The contractual agreements with the offices require that separate books, accounts and records be maintained for FUTURES funds. These agreements also require that audited financial reports be prepared annually.

We visited the nine offices and examined the controls over the receipt and disbursement of FUTURES funds, including payments to participants.

Generally, these controls were operating satisfactorily.

Excess Funding

In its application for funding, each office must state the number of participants it is capable of attracting and handling based on past experience. The total funds requested through the government estimates process and the subsequent allocation to the individual office are dependent on this process. Therefore the organizations are encouraged by the Ministry to critically analyze and assess this important placement figure.

Of a total of 129 approved budgetary submissions, we observed that the Ministry gave 41 offices additional funds over and above those requested in the approved submissions. These additional allocations amounted to about 1,900 placements and almost $4.4 million over and above what the offices requested. In many instances the offices were not consulted as to their ability to attract and handle the additional placements.

In one instance, an office was given additional funding of $128,000 for 52 placements in spite of the fact that this office had earlier indicated to the Ministry that it was having difficulty meeting its original target for placements.

In another case, the staff at one office expressed concern to us that if the additional placements were not filled then it might reflect badly on their capabilities in the Ministry's eyes. If pressure was put on the office to arbitrarily increase the number of placements, it could influence the Office's responsibility to identify appropriate applicants.

Our examination of the offices' mid-year reviews showed that for nine of the 41 offices which received money over and above the approved amount, the originally approved grant was more than sufficient to accommodate all participants. Accordingly, we questioned whether they would be able to effectively utilize the additional funding given to them by the Ministry.

In some offices with excess funds, we noted the diversion of funds to other uses. For example, in one Youth Employment Centre visited, we noted that FUTURES funds amounting to $6,500 were loaned to an unrelated program also administered by the same Centre. In another location, FUTURES funds were used to purchase appliances (i.e. refrigerator, microwave oven) for use by the Counselling Centre staff because according to the Director, funds were available and guidelines were not specific on the purchase of such items.

The Ministry advised us that after the initial allocation, a second allocation was made four months later based on the Ministry's anticipation that the program would attract larger participant numbers as a result of increased awareness to the Program.

We recognized that the Ministry requires some flexibility in allocating funds to offices. However, we recommended that the Ministry review its funding practices to ensure that the process of allocating funds is consistent with the goals and needs of the offices.

NON-COMPLIANCE WITH MINISTRY GUIDELINES

Lack of Assessments

When a young person applies to the Program, an initial assessment is done of the individual's strengths, weaknesses and problems in order to determine how the placement will relate to the participant's skills, interests and short and long-term goals. This assessment is also important as it assists in determining whether the Program is the proper mechanism for improving the individual's employment situation.

Recognizing the importance of the assessment, the Ministry has incorporated in its guidelines specific criteria which should be utilized in assessing the individual. For example, information such as employment history, education, health, family situation, etc., should be obtained. Complete assessments should also include a documented statement of the recommended course of action determined as a result of the assessment.

At four of the nine FUTURES offices, we noted some excellent assessments which included comprehensive detail on strengths and weaknesses, personal overviews as well as a game plan for the individual.

However, at five offices we noted assessments that were incomplete and did not address all criteria. Out of a total of 72 participants' files examined, only six had complete assessments. In one office, of the 20 participant files examined, we found none with assessments that met the Program guidelines.

It should be noted however, that some of the poor assessments were performed early in the Program's life and we observed some improvement in the more recent assessments we reviewed. We felt that this area warranted particular Ministry attention during the cyclical visits to the offices.

Inadequate Verification of Eligibility Data

The guidelines of the Program require that eligibility data such as date of birth, educational history and recent employment be verified by the offices. Verification is important to ensure that only eligible young people take part in FUTURES. In addition, by requiring the offices to retain verification documents the opportunity for misuse of FUTURES funds is minimized as the auditability of the Program is enhanced.

In seven of the nine offices we visited, eligibility data was not being verified in a number of cases. In one case, an individual was over the age limit (27 years old as stated on the application) yet still approved for the Program.

In the remaining two offices, copies of verification documents were not retained on file. The staff stated that they did not retain documentation because they believed guidelines were not clear on this matter. We concurred and accordingly suggested that the guidelines be clarified in this area.

Furthermore, in conjunction with the Ministry's initiatives in visiting the offices, we recommended that a continued emphasis be placed on ensuring eligibility criteria are being verified.

EFFECTIVENESS

Change in Method of Calculating Success Rate

The success rate is used for reporting the program effects of FUTURES to senior Ministry management and to the general public.

To the end of June 1986, over 22,000 individuals had entered the Program. The success ratio was calculated as the proportion of "positive" outcomes for all the participants. A positive outcome was defined to include those individuals who had:

- found full-time employment;
- moved from the Pre-Employment phase to the Work Placement phase;

- returned to school; and

- been referred to another agency for job placement such as the Canada Employment Centre.

Subsequent to June 1986, a new category called "neutral"was created, which included outcomes such as "non-completion voluntary withdrawal". Most of this new category of outcomes had been previously classed as "negative" and was formerly included in the total number of participants used for calculating the success ratio. These "neutral" outcomes however, are now excluded from the total number of participants used to calculate the overall success rate. Accordingly, the percentage of successful participants arbitrarily increases.

The success rate of the Program was reported from the date of inception to June 1986 as 60 per cent. By using the new method of calculation a success rate of 70 percent is now being reported.

At the time of our audit, the Ministry informed us that they were in the developmental stage of determining an appropriate measure of success. They have decided on a success factor which is based on the status of the individual three months after departing the Program.

RESPONSE

A response to our audit report was received from the Deputy Minister on October 7, 1987.

GRANT APPROVAL AND PAYMENT PROCESS

Excess Funding

"In allocating funds to FUTURES offices there is a process of consultation and negotiation in order to ensure that community needs are met and that the capacity of the FUTURES office is not exceeded. Midyear reviews are undertaken in which changes to the allocations are made in light of new information. On-site program reviews and a year-end final audit ensure adherence to FUTURES guidelines and to determine that funds have been used for the purposes intended."

NON-COMPLIANCE WITH MINISTRY GUIDELINES

Lack of Assessments

"The Ministry has revised the FUTURES guidelines in the areas noted. The Ministry has established procedures for ensuring compliance to the FUTURES guidelines, including on-site program reviews conducted by Ministry staff. . . "

4.12 Observations on the OPP Telecommunications Project and Office of the Chief Coroner, Ministry of the Solicitor General

The Ontario Provincial Police (OPP) Telecommunications Project is a new centralized telecommunications system. Currently, it has a total capital project budget of $106.9 million. Expenditures in the 1987 fiscal year were $5.7 million.

The Office of the Chief Coroner investigates deaths which occur from sudden or unexpected causes. Expenditures in the 1987 fiscal year were $9.2 million (Vote 1502, Item 4).

Auditor's Report for 1987

SUMMARY

SCOPE AND OBJECTIVES

Our audit focused primarily on the OPP Telecommunications Project and the Office of the Chief Coroner. Our objectives were:

- to update the status of the OPP Telecommunications Project; and
- to assess the adequacy of management controls to ensure that investigations and inquests were being carried out economically by the Office of the Chief Coroner.

CONCLUSIONS AND FINDINGS

OPP TELECOMMUNICATIONS PROJECT

The project was two years behind the implementation schedule submitted to Management Board in 1985.

OFFICE OF THE CHIEF CORONER

Investigations and inquests were generally carried out economically by the Office of the Chief Coroner. However, we noted the following:

- **Consideration should be given to the use of full-time employees as coroners in areas with large volumes of cases.**
- **The normal selection process for new coroners had not been consistently applied.**
- **Progress had been slow in implementing a computer system to analyze causes of death across the province.**

COMMENTARY

OPP TELECOMMUNICATIONS PROJECT

Background

In January 1980, Management Board approved $24.4 million for a new centralized telecommunications system for the OPP to upgrade its existing system installed in 1947. In 1982, when it became apparent that this estimate would be exceeded, Management Board chaired a comprehensive administrative and technical review of the project. This resulted in the Ministry establishing a new team to improve the overall management of the project.

Through a series of applications in 1983 to 1985, approval was granted by Management Board in 1985 for a new spending limit of $32.4 million, to allow completion of a field test of equipment in compliance with contract terms, and to provide interim storage for equipment pending acquisition of communications centres and remote site buildings.

In 1985, the Standing Committee on Public Accounts expressed concern regarding the delays and increasing costs associated with the project. However, the Committee was assured that the project was being subjected to a constant management review and that the Ministry did not intend to cancel the project.

In 1986, after a detailed study of costs required to complete the project, the Ministry received approval from Management Board for additional costs of $74.5 million (1985 dollars) over five years. In approving a total capital project budget of $106.9 million (1985 dollars), the Board requested the Ministry to submit an annual progress report beginning May 31, 1987.

As noted in the Ministry's first progress report, approximately $28.2 million had been spent on the project from the inception to March 31, 1987.

Continuing Delays in Implementation

Problems were being experienced and will, in all likelihood, continue to be experienced before the new telecommunications system becomes fully operational. Implementation was being phased in on a district-by-district basis. There are 16 districts and over 150 remote tower sites involved.

An implementation schedule was prepared and submitted to Management Board in October 1985. This schedule indicated that the first district would be operational by August 1987 and the last by April 1990.

However, approval from Management Board was not received until March 1986. As a result, implementation was delayed. In addition, expected dates for acquiring tower facilities for two districts may have been overly optimistic. Consequently, the project is not expected to be completed until April 1992.

The two-year delay before the telecommunications system becomes fully operational means additional costs as follows:

. **cost of changing equipment delivery dates**	**$ 900,000**
. **cost of storing equipment already delivered**	**600,000**
	$1,500,000

At the time of the audit, approximately $3 million worth of equipment had been installed while equipment worth $18 million was being held in storage waiting to be installed.

Contracts Adequately Monitored

Our review indicated that management had been satisfactorily monitoring existing contracts pertaining to the project. In this respect, contract compliance had been subjected to periodical reviews by the Ministry's Internal Audit Branch. Furthermore, contract terms allow the Ministry to withhold a portion of the purchase price until after the equipment has been installed and satisfactorily tested.

OFFICE OF THE CHIEF CORONER

Background

Approximately 400 private medical doctors are appointed to act as coroners, mostly on a fee for service basis. They investigate about 27,000 sudden or unexpected deaths each year.

The Coroners Act requires that public inquests be held into deaths which occur on construction or mining work sites as well as for individuals who die while in custody. Inquests can also be held at the discretion of coroners. In 1986 over 200 inquests were held resulting in over 1,100 recommendations.

Use of Full-Time Coroners Needs Consideration

Our review of the expenditures made by the Office indicated that it is generally being run economically. However, we noted the following.

In 1971, the Ontario Law Reform Commission issued a report on the Coroner system in Ontario. The report recommended a cost-benefit study to determine whether full-time coroners should be hired in areas with large volumes of cases. In 1983, a study done by the Regional Coroner of Metropolitan Toronto recommended the establishment of full-time coroners in Metropolitan Toronto.

At a rate of $65 per hour, private physicians acting as coroners in Ontario earn approximately $500 per day. **Because of the high fees involved, we also recommended that the Chief Coroner review the possibility of using full-time employees to carry out inquests. As well as generating some cost savings in major cities, advantages would likely include the ability to service calls faster and through regular exposure, provide improved control and proficiency in the inquest process.**

Coroner Selection Process Not Followed

The Office of the Chief Coroner first identifies a need for a coroner in a specific region. The Regional Coroner then identifies potential candidates for appointment based on their professional reputation and expressed interest in the position.

A series of interviews are conducted to ensure that the individual is appropriate for the position. This is followed by a recommendation to senior ministry management and the individual is then appointed by the Lieutenant Governor in Council (by Order In Council).

During the 1986 calendar year, 13 doctors were appointed to act as coroners across the province. Our review indicated that three of these individuals did not go through the normal selection process.

In two of the noted cases, the Chief Coroner had recommended individuals for appointments for specific areas in January 1986. However, these appointments were not approved and, instead, two

other individuals were given the positions. At the date of our review in May 1987, the Chief Coroner had not received any explanation from the Ministry as to why the recommended individuals had not been appointed.

In the third instance, the Regional Coroner had clearly indicated that there was no requirement for additional coroners in one area. Nevertheless, an individual was appointed.

Duplication in Programming of Computer System

In 1971, the Ontario Law Reform Commission recommended the use of a computer system to analyze causes of death across Ontario. The Commission felt that such a system "should be an overall goal of a modern Coroner system".

In March 1984, having concluded that its manual systems were outdated and inefficient, the Ministry approached Management Board with a proposal for an automated information system. It was estimated that the system would cost $380,000. The Ministry noted that manpower shortages meant that valuable information was not being recorded and insufficient time was being spent reviewing reports and analyzing cases.

Management Board approved a request to tender for a mini-computer on the understanding that the Ministry perform a more in-depth requirement review. The Board aided the Ministry in finding a consultant to perform this study. As a result of the study, the Ministry concluded that the system required would be more costly than originally anticipated.

Keeping Management Board informed, the Ministry proceeded to develop a system in-house which could be operated on a mainframe computer already in use by the OPP. Management Board was again approached in March 1986 to obtain final approval to proceed with the project at an estimated cost of $1 million.

In December 1986, the Board gave its approval to go ahead with the system. However, it objected to the use of the OPP computer for the task and instead recommended the use of microcomputer technology. By this time, however, the Ministry had already completed over 80 per cent of the systems development to operate on the OPP equipment.

It is expected that over $140,000 will have to be spent to convert software already written for the OPP mainframe computer, for application on the purchased microcomputer equipment. This system which was originally expected to be completed by February 1987 will not become operational until the end of March 1988.

RESPONSE

The Deputy Solicitor General replied to our report on October 15, 1987.

OPP TELECOMMUNICATIONS PROJECT

Continuing Delays in Implementation

"The schedule in your report indicates that the $900,000 additional costs were attributable to changing equipment delivery dates. I believe this actually represents a negotiated price for increased labour costs and deferred cash flow resulting from delayed installation. As stated, storage costs were included in the $32.4 million approved in 1985. These were necessary to meet our contractual obligations to accept delivery after successful testing. It is very important to recognize that these additional costs were forecast at the time of the submission of the Implementation Alternatives Report and were subsequently approved by Management Board.

"A total of $18 million has been paid to date for the supply of mobile radio equipment. Of this amount, equipment approximating $3 million has been installed.

"The implementation schedule submitted in 1985 noted that the provision of tower facilities to the last two of the sixteen districts was optimistic. This proved to be true and accounts for one year's delay in final stage of the project. The second year of delay stems from the fact that Management Board approval was not received until 1986 - the following year."

OFFICE OF THE CHIEF CORONER

Use of Full-Time Coroners Needs Consideration

"We have reviewed this option in the past and did not find it to be a viable alternative at that time. I am, however, prepared to look at it again."

Duplication in Programming of Computer System

"As stated (in the audit report), the Ministry's direction on this project was disclosed to Management Board. In fact extensive dialogue was maintained with the Management Board Secretariat. The decision to proceed with programming was made on the basis that our approach was acceptable and in the interest of having this system operational as soon as possible. In light of the eventual decision to utilize microcomputer technology the software conversion costs were unavoidable.

"Implementation of the system in its revised form has commenced, and although it will not be fully converted until the spring of 1988, the Coroner's office is currently benefiting from the system at an earlier point in time than would have been the case had we not commenced development using the OPP computer."

4.13
Cost Escalation and Other Matters, Ontario Pavilion Expo 86 Project, Ministry of Transportation and Communications

The design and construction of the Ontario Pavilion Project for Expo 86 in Vancouver, British Columbia, was approved in the spring of 1983. In our 1986 Annual Report, we observed that the Province's cost for the Project, originally budgeted at $22 million in 1982, had escalated to an estimated $31.9 million.

Our audit examined the construction and operating expenditure and the revenue of the project to March 31, 1987, totalling $33.9 million and $4.3 million respectively.

SUMMARY

OBSERVATIONS

Based on our audit and review of the work done by the Internal Audit Branch of the Ministry of Transportation and Communications, we observed that:

- **Although originally planned to be portable and returned to Ontario, the Pavilion was ultimately demolished.**
- **Lack of design detail and working drawings for exhibit fabrication contributed to cost escalation of $1.9 million.**
- **A firm of technical consultants was hired for the project without any competitive selection procedure.**
- **Extra payments totalling over $40,000 were made by the Pavilion's restaurant management.**

COMMENTARY

Pavilion Not Returned to Ontario Despite Planned Portability

In April 1983, a submission to Cabinet on the Pavilion Project requested approval for a $22 million expenditure which included $11 million for the building and $11 million for the exhibits, fittings and operations. The submission indicated that the expenditures should be viewed as a long-term investment as the Pavilion would be designed to be transferable back to Ontario after Expo. A sum of $2.5 million was included in the estimated capital costs to provide for the option of bringing the Pavilion back.

In April 1983, Cabinet recommended that "the Pavilion should be designed for use in Ontario and presented to Vancouver temporarily for the Fair", and in May 1983, the Board of Directors created a task force to study the possibility of relocating the Pavilion once the Fair was over. In November 1983, the task force concluded that the completed Pavilion should be brought back and used as a mini-Ontario Place.

However, a study completed by the Ministry of Tourism and Recreation in October 1984 concluded that it would not be economically feasible to return the structure to Ontario.

During our review of the disposal of the building we noted that while the building was designed to be portable, construction specifications in this regard were less stringent than originally planned regarding portability.

In September 1986, the Premier of Ontario asked the Premier of British Columbia whether his Province was interested in having the Pavilion as otherwise it would be demolished. In November 1986, the Premier of British Columbia declined Ontario's offer stating that it would cost too much money to make the Pavilion useable on a permanent basis. **Subsequently, the Pavilion was demolished at a cost to Ontario of over $300,000.**

Information available at the Ministry of Transportation and Communications indicated that prior to the demolition, approximately $3.3 million of moveable assets of the Pavilion were transferred to a number of other Ontario ministries and agencies. In addition the Pavilion also received almost $80,000 for sale of moveable assets at a public auction.

Poor Control over Contract with Consultant

Several firms were contracted by the Project to perform tasks relating to construction and operations. During our review of contracts and related expenditures, we noted that in one instance, a consultant was contracted to fabricate the exhibits for the Project. **According to the terms of the contract, exhibit fabrication costs were not to exceed $2,800,000. However, final exhibit fabrication costs were approximately $4,700,000.**

One of the stipulations of the contract was that the Project would provide the consultant with design detail and working drawings to guide in the fabrication of the exhibits. **Neither design detail nor working drawings were provided by the Project and, as a result, some exhibits were rebuilt several times as the design concepts changed.** This was one of the factors which contributed to the cost escalation experienced on this portion of the project.

Questionable Technical Consultant Arrangement

According to Ministry documentation, the then Minister of Transportation and Communications, on July 25, 1983, selected a firm to provide technical consulting for the Ontario Pavilion Expo 86 Project. The Project paid this firm approximately $32,000 for services rendered from April 1983 to May 1984.

During our review of these technical consultant services, we noted that:

- **The President of the firm was appointed to the Board of Directors at the outset of the Project and as well sat on the Pavilion's Executive Committee which was involved in the decision making process for the Project. This individual remained a Board member until May 1984, throughout the time his firm provided technical consulting services to the Project.**

- **The firm was hired without any competitive selection procedure.** The Manual of Administration requires ministries to perform competitive selection procedures when hiring technical consultants including soliciting detailed proposals from at least three qualified suppliers.

- The firm invoiced the Project prior to being appointed as consultant by the then Minister of Transportation and Communications.

  The president of the firm was appointed Commissioner for the Ontario Pavilion, effective April 1984. This appointment received Management Board approval.

Restaurant Operations: Extra Payments

The Pavilion included a 250-seat restaurant known as the Trillium Restaurant whose objective was to promote Ontario's wines and agricultural products. A restaurant manager was hired by the Pavilion to manage its day-to-day operations. According to the terms of the contract, the manager was to be paid a total of 10 per cent of the restaurant's gross sales which included 1-1/2 per cent for accounting and administrative services such as payroll functions. The Pavilion paid this manager approximately $416,000 during 1986 for the restaurant's 164 days of operations, of which approximately $62,000 was for accounting and administrative services.

The Pavilion advanced funds to a Trillium Operating Account and allowed the manager to write cheques on this account for restaurant operations. **During our review of restaurant expenditures, we noted that although the restaurant manager received $62,000 to cover accounting and administrative services, the following additional payments were made:**

- **Three cheques dated August 1986, September 1986 and October 1986 totalling $20,000 were paid from the restaurant operating account to the restaurant manager's spouse without any support at that time for the payments.** In February 1987, an invoice was provided by the manager's spouse indicating that these payments were for "services rendered to the Ontario Pavilion Trillium Restaurant" from January to December 1986. We were advised that these services were for accounting functions performed by the manager's spouse for the Trillium restaurant.

- **Approximately $11,000 was paid to a bookkeeper and a bank for accounting and payroll services relating to the restaurant.**

In addition, the restaurant manager approached the Pavilion management in August of 1986 with a request to pay certain restaurant staff a bonus equal to 10 per cent of their salary. **The projected cost of this bonus was $29,700 and was to exclude the waiters and waitresses as they had received gratuities. This request was approved by the Pavilion management. However, the restaurant manager paid bonuses totalling $40,200 to all staff, including waiters and waitresses.**

RESPONSE

The President of Ontario Pavilion Inc. responded to our comments on October 1, 1987.

Pavilion Not Returned to Ontario Despite Planned Portability

"It is acknowledged that originally the Ontario Pavilion would be designed to be transferred back to Ontario after Expo. Therefore, a great many of the basic design features were based on the fact that this option was required. However, at the same time the architect had to maintain the number one priority, that was to prepare the design specifically for the British Columbia Expo Requirements.

"As the design progressed, and responding to Cabinet direction, the Board of Directors for the Ontario Pavilion requested the Ministry of Tourism to carry out a study to determine the feasibility of relocating the Pavilion back in Ontario and also the site options, as well as the total cost for this relocation which of course included new site preparation and related costs.

"During this entire period of the review of the possible relocation to Ontario, the Board of Directors, through the architect, used the information that was becoming available in regards to costs, etc., that showed it was less likely feasible to move the building back to make decisions in regards to cost savings and other associated items, recognizing the British Columbia site requirements had to be met.

"Therefore, when the Ministry of Tourism and Recreation study was completed as stated in the Auditor's comments, the Board further decided to make any construction changes during the actual construction period with the knowledge that it was not economically feasible to relocate.

"Therefore, costs to provide for the demolition were obtained by . . . way of Management Board application dated May 2, 1987, and subsequently approved.

"During the latter part of the Expo 86 project, while the event was coming to a conclusion, there was a period of indecision on the part of the British Columbia government regarding the future use of the Pavilion lands and the determination as to the utility of transferring ownership of the Ontario Pavilion to the British Columbia Place Corporation responsible for the on-going use of the area. Discussions eventually concluded that the Pavilion should be demolished to meet the original contractual obligations to restore the site."

Poor Control over Contract with Consultant

"We do not agree there was poor control over this contract since the staff, Executive Committee, Board of Directors and Legal Counsel exercised a tight reviewing and approval procedure to administer this specialized contract.

"The fabrication contractor was chosen from a number of bids submitted. This bidding was based on information supplied by two reliable designers who had been selected from a large number of proposals submitted in response to a public request. In regards to one portion of the fabrication contract, the designer was able to supply detailed design working drawings. In the other (the theatrical

designer), since it involved completely new and developing concepts, was only able to supply limited design and working drawings and particularly limited information in regards to availability of materials.

"After the fabrication contract was awarded and when suppliers became more aware of the availability and cost of alternatives, the theatrical designer approached staff and, through staff the Executive Committee and the Board of Directors, requesting extensive changes to the design. As stated, many of these changes were necessitated due to the unavailability of materials and the substitution of others.

"However, what the Ontario Pavilion experienced was not unique to this project when considering this type of undertaking . . .

"A breakdown of additional costs were as follows:

i) An additional $600,000 was approved by the Board of Directors to enhance the Dark Exhibit area to include light and sound as referred to above.

ii) A further $450,000 to meet the increased costs of providing the prototypes, experiments and finished products for the Dark Exhibit area.

iii) The light and sound additions to the Dark Exhibit area required additional power lines and transformers at a cost of $150,000.

iv) Payment of federal sales tax in advance in the amount of $388,744 was not anticipated in the original expenditures. This amount was subsequently recovered from the Federal Government and treated as revenue."

Questionable Technical Consultant Arrangement

"We are concerned about this being referred to as a questionable Management (technical consultant) Contract. We did receive appropriate approval and direction from Management Board to enter into a contract for this unique position, i.e., 'the Commissioner for the Ontario Pavilion'. Close discussion between the Ontario Pavilion staff, the Chairman of the Board of Directors and Management Board, was undertaken over the method of . . . selection. (Management Board approved the position of Commissioner in 1984. However, there was no evidence provided of approval for the firm as technical consultants in 1983).

"A particular individual with unique background and skills for this role was identified at an early stage of the Expo planning. Discussions were entered into with Management Board to determine the best method of paying for the unique person with these specialized duties."

Restaurant Operations: Extra Payments

"Payments were made according to the terms of the contract. If these payments appeared to be excessive, it was because the restaurant far exceeded, not only the Ontario Pavilion staff estimates, but also by

far the sales as projected by the independent estimate of Management Board staff.

"This successful operation was fully attributable to the Manager of the restaurant. This Manager was selected by a competitive process from a broad list of applicants.

"In regards to the $20,000 payment to the restaurant Manager's wife, approval was given by the Director of Finance and Administration who had completed the contract with the restaurant operator and clearly saw this payment as being within the terms negotiated in the contract. Reference to post-approvals was based on the Director of Finance and Administration seeking from the Board Chairman arbitration on this point since it was raised as an issue by the Ministry's Internal Audit Branch.

"The Chairman acknowledged the contract could be interpreted two ways and therefore relied on the 'intent of the agreement in rendering a decision'.

"The success of Expo during the last six weeks resulted in an unexpected workload for the Pavilion Restaurant. Original projections indicated a decline in attendance and operations during September and October. Business at the restaurant broke all previous records during September and October with some people waiting up to two hours to be seated. The restaurant manager needed to keep the highly trained staff to the end of the Exposition, October 14. The additional bonus was used to offset a perceived reduction in staff during the remaining weeks. The difference between the approval level and actual bonus payments is $11,000.

"The bonus payments assisted in keeping staff at the Pavilion."

4.14 Good Project Control But Some Construction Priorities Questionable, Ministry of Transportation and Communications

The objective of the Provincial Highways Program is to provide and maintain a provincial highway system that will satisfy the mobility, energy conservation and social needs of the people of Ontario.

Capital and Construction is a principal activity within the program. Expenditures for this activity during the 1987 fiscal year were $214.7 million (Vote 2604, Item 3).

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Capital and Construction activity included assessments of:

- the Ministry's process for prioritizing highway construction projects; and
- the procedures for the acquisition and payment of services to private contractors.

Comments on Ministry Audits

CONCLUSIONS AND FINDINGS

PRIORITIZATION OF CONSTRUCTION PROJECTS

The Ministry's process for prioritizing highway construction projects was adequate. However, we noted the following practices which reduced the usefulness of the process:

- **A number of lower priority projects were undertaken due to ministerial override.**
- **Priorities are established on a regional rather than a province-wide basis.**

TENDERING AND CONTRACTOR PAYMENTS

The Ministry had strong procedures in place to ensure that construction contractors were selected in a fair and competitive manner and that payments were made only for materials and services provided.

OTHER MATTERS

- **Failure to identify surplus land for disposal had resulted in idle land holdings and revenue foregone by the Ministry.**
- **Improved control over Ministry vehicles was needed to ensure vehicles were utilized in the most economical way.**

COMMENTARY

Overview

The Capital and Construction activity deals with the acquisition of land, awarding of construction and consulting contracts and the supervision of all provincial highway construction projects.

There are 5 regional and 18 district offices located across the province. A major function of the regional offices, which have a staff of 854 employees, is the monitoring of the work being performed by the private contractors. Our audit focused on the Central and Northern regions, two of the largest areas.

PRIORITIZATION OF CONSTRUCTION PROJECTS

Overview

All capital and construction project priorities for each region for the next five years are initially determined by the regions with final approval given by Head Office, taking into account anticipated funding.

While no formal criteria had been established for prioritizing projects, we were informed that various factors such as accident ratings, the traffic volumes and patterns, growth predictions, the pavement condition rating, maintenance history, and cost estimate are considered by the regions. A justification report containing these and other factors, is prepared by the regions for all construction projects to be considered for inclusion in the five-year plan.

Questionable Justification for Some Projects

We reviewed projects commenced or completed in the past several years in order to determine whether prioritized projects undertaken were justified based on consistently applied criteria. **We noted a majority were adequately justified consistent with the factors previously mentioned.** As well, these projects were included on the five-year plan and a justification report was prepared in each case.

However, we noted several projects were based on weak justification, and/or were approved ahead of higher priority projects. For example:

Kenora Bypass

The purpose of this project is to relieve traffic congestion on the Trans-Canada Highway through Kenora. Construction commenced in 1982 and is slated for completion in 1991. Prior to construction, a decision had to be made as to whether improvements to the internal route through Kenora, costing only $3.7 million, would have been more effective and economical than the $54.4 million budgeted for the bypass.

Evidence indicated that the internal route would have been the best choice. For instance, correspondence from senior Ministry personnel suggested that the external bypass would only provide minimal relief to the internal traffic movements within Kenora and that the deficiencies within the internal road network would remain whether or not the bypass was constructed. Furthermore, studies showed that the benefit of improving the internal route in relation to its cost was substantially better than that of the external bypass.

James Snow Parkway/Highway 401 Widening

The James Snow Parkway which included an interchange at Highway 401 was originally built in 1983 at a cost of $4 million. The justification for the project included servicing anticipated residential and commercial development in the area and reducing truck traffic through the town of Milton.

The Parkway was part of the project widening Highway 401 from Trafalgar Road to Highway 25 at a cost of over $9 million. A review of the traffic volumes indicated the 1984 average daily Parkway traffic was 3,300, which was very small compared to other highways in the Province. In addition, the anticipated residential and commercial development in the area still appears to be many years away.

As well, the 1980 five-year plan indicated that the traffic volumes on the 401, where the interchange and widening occurred were operating at a level of service rating of C. The level of service rating is a measurement of highway conditions ranging from A (the best) to F (the worst). There were 14 similar projects within the region (major widenings) with ratings of D, E and F that were assigned lower priorities. In fact, four years after the Parkway had been built, work had not been started on several of these projects.

Highway 11/Taylor Road Interchange

In September 1986 this project, with an approximate cost of $3.3 million, was given an immediate priority and placed on the 1986

program year although in January 1986 it was not on the region's five-year plan. The justification for the interchange was to reduce the potential for traffic accidents at this location. However, a review of the accident rating data showed a rating of 0.7 which is well below the provincial average of 1.1. We also noted that the area in question had low traffic volume. A review of the five-year plan showed there were at least nine projects with an accident rating greater than 2.0 which were given a lower priority.

Passing Lanes - Section of Highway 17

In September 1986, the construction of two passing lanes on Highway 17 at an approximate cost of $1.3 million, was given a 1987 priority despite the fact this project was not on the five-year plan. Furthermore, no justification report was prepared for this project. We noted that traffic volume and accident rating data did not justify construction of these passing lanes. For instance, the accident rating of 0.6 for this section of highway was among the lowest of any of the projects on the five-year plan for the region and well below the provincial average of 1.1.

We also noted that the region was asked to commence work immediately on the passing lanes even though it had not yet been determined where they were most needed. In fact, Head Office gave the region only a few hours to select the project's location prior to tenders being sent out. Furthermore, the region had indicated that it would prefer to start construction in 1988, so that the construction could be performed more economically in conjunction with other planned work on Highway 17. However, the region's advice was ignored and the project was implemented by Head Office in 1987.

We were informed that several projects were undertaken based on ministerial override.

Allocation of Funds to Regions Warranted Reassessment

Each year, Head Office advises the five regions of the approximate funding they can expect to receive. Generally, the allocation does not vary significantly from the previous year and is not contingent to any appreciable extent on that region's anticipated project requirements. **We felt that this method of allocation did not give sufficient consideration to construction priorities on a province-wide basis.**

For instance, the following is an example of the possible consequences of the current method of allocating project funds amongst regions.

One region plans to extend Highway 403 to provide a continuous freeway linking the communities of London, Brantford, Hamilton, Burlington, Oakville, Mississauga and Toronto (scheduled to be completed after 2001).

The new freeway is required primarily because the QEW between Burlington and Mississauga is presently operating beyond capacity. Based on 1990 traffic volume forecasts, even if this section of the QEW were widened from six to eight lanes, volume would still exceed capacity. Therefore, the Ministry felt the only practical alternative was to construct another freeway.

Due to the size and $149 million cost of this project, it is being built in stages, three of which are required to remedy the overcapacity problem on the QEW. These three stages were scheduled for completion in 1988, 1996 and 2001. We noted that those sections with the highest average daily traffic volumes - (83,000 and 100,000 daily vehicles) were scheduled for completion in 1996 and 2001.

In essence, the serious overcapacity problem on the QEW will not be rectified for nearly 15 years. This is due, in part, to the fact that the most critical section of the new freeway cannot be built first as it would commit too many dollars to one specific region over too short a time period.

We noted multi-million dollar construction projects undertaken in other regions which in our opinion had a much lower priority from a province-wide perspective. For instance, one region spent approximately $105 million constructing Highway 402 (completed in 1983), with an average daily traffic volume of 13,000. As mentioned previously, another region was in the process of constructing the Kenora bypass at an estimated cost of $54.4 million despite having an average daily traffic volume estimated at 6,000 by the year 1991 (expected year of completion).

We recommended that the Ministry establish province-wide construction priorities, and that some portion of available funds be allocated to these priorities each year. Remaining funds would then be allocated on a regional basis in accordance with the existing practice.

TENDERING AND CONTRACTOR PAYMENTS

Overview

During the 1987 fiscal year, 184 construction contracts with a tender value of $225.4 million were awarded under the Capital and Construction activity.

Good Competitive Selection Procedures and Control over Contractor Payments

Once a project has been approved by Head Office, the Contract Management Office will prepare the final tendering documents and the job is advertised. All projects and contractors are given a qualification rating. This rating takes into consideration a number of factors including complexity of the project and whether the contractor has sufficient resources to successfully complete a project. In order to bid on a job the contractor must have the qualification rating established for the project.

Generally the lowest bid is accepted except in situations where the bid is plus or minus 10 per cent of the Estimating Office's bid. This Office completes the same tendering forms as the contactors do. This process is a good safeguard in that if a bid is unrealistically low, the contractor could go bankrupt part way through the completion of a job. If the bids are high, it could be that the contractors are too busy and are therefore quoting unrealistic high prices. In these instances, it is better to delay the job until the Ministry can obtain a better price.

We reviewed the awarding of 18 recent contracts covering all regions with a total value of $50.9 million and noted that:

- **All contracts were properly advertised and subjected to a fair selection process.**

- **In all cases, the minimum bid was selected and the bid was generally within the range established by the Estimating Office.**

- **In all cases, the contractor had the required eligibility rating.**

As the contractor performs work on a construction project, the Ministry makes payments based on inspections by field staff. When a contract has been completed in the field and accepted by the regional office, Head Office reviews the whole contract to verify the quantities of work done, prior to the Ministry making final payment to the contractor and closing out the contract.

We reviewed payments made by several regions to 18 contractors and noted that the regional staff maintained adequate supporting documents to justify various processed payments. We also reviewed eight final payments by Head Office and found that they were all properly administered.

OTHER MATTERS

Improved Sales Effort Required - Surplus Land

A regular review of land inventory files is important, in order to enable the property office through discussions with the planning engineers to assess whether the status of the land has changed.

Recognizing the importance of such reviews, Management Board recently reissued a directive stating that ministries are to develop criteria to determine which lands are surplus to requirements, to ensure that all Ministry lands are regularly assessed against the criteria. The continuing review of surplus lands should identify opportunities for selling certain properties and lead to maximizing revenue to the government.

We reviewed the inventory files of land declared surplus at two regions in order to determine whether the regions were reviewing surplus lands on a timely basis for possible sales and noted:

- **In one region there was no documented evidence of review for a period of five or more years on 31 surplus files examined. These files covered approximately 160 acres of land. In one instance, there was no indication of review over a span of 34 years.**

  In another 17 instances the property had been cleared for disposal and interest had been expressed in the property; however, for no apparent reason, the property was never put up for sale by tender. We obtained an independent appraisal on five of these properties (100 acres of farm land), which indicated that as of August 1987, these properties were valued at $1.4 million.

- **In the other region there was no evidence of review for at least five years in six out of eight surplus files examined.**

In view of these findings,we also reviewed a number of large prime location properties. We found that in each case disposal action was being taken.

Tighter Controls Required over Use of Vehicles

The Ministry had approximately 273 passenger cars for staff to use in the course of their duties.

Instead of using these vehicles, staff may drive their own personal vehicles and be reimbursed by the Ministry based on standard rates per kilometre. For instance, employees who use their own vehicles in Southern Ontario would be reimbursed 27.5 cents per kilometre for the first 4,000 kilometres driven.

A Ministry report indicated that it is more economical for the Ministry to supply a vehicle to staff who travel more than 27,000 kilometres per year in Southern Ontario and 23,000 kilometres in Northern Ontario, rather than to have staff use personal vehicles and be reimbursed by the Ministry. A report prepared by Management Board arrived at 22,000 and 15,000 kilometres per year for Southern and Northern Ontario respectively, as the maximum economic level for personal vehicle use by staff.

In order to assess whether Ministry vehicles were being utilized economically, we reviewed the number of kilometres driven by staff during the 1987 fiscal year, using their own vehicles and noted:

- **In one northern region there were 29 employees who had driven more than 23,000 kilometres including several employees in excess of 30,000 kilometres, yet a number of Ministry-owned vehicles within the same region were driven less than 10,000 kilometres.**

  In one instance, the Ministry reimbursed an individual over $11,000 for more than 60,000 kilometres driven in a personal vehicle, yet a Ministry vehicle in the same region was driven less than 4,200 kilometres. We noted that the Ministry's Internal Audit Branch had reported this instance to the region.

- **In one southern region, there were over 29 employees who had driven in excess of 27,000 kilometres including several who had driven over 35,000 kilometres. However, a number of Ministry vehicles within the same region were driven less than 10,000 kilometres.**

We recommended that the Ministry more closely monitor vehicle utilization to ensure that those employees who drive significant distances are using Ministry supplied vehicles.

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 16, 1987.

PRIORITIZATION OF CONSTRUCTION PROJECTS

Questionable Justification for Some Projects

"Highway programming is not an exact science. Priorities are based on traffic volumes, traffic projections, nature of traffic, condition of pavement, accident incidence, availability of funds, coroners reports, etc., but other less quantifiable aspects must also be considered including government priority for regional and economic development, tourism, etc. The program is under constant scrutiny by senior people associated with the Ministry to ensure that it is meeting the many objectives attached to it. Priorities can change, even in-year, for a variety of reasons and pressures are exerted on it from different directions, but the general direction of the program does not change.

"Decisions were made on some of the projects you have mentioned many years ago. For example, discussions on whether to build the Kenora bypass started at least 20 years ago with the decision to build at least 10 years ago."

Allocation of Funds to Regions Warranted Reassessment

"In any region there is a need to rehabilitate and improve that portion of the highway system continually. This is normal work without considering any major projects which alter the stable program.

"Major projects generally take a long time to get started considering local pressures for the project, or opposition to it, environmental impacts, availability of funds, etc. This permits regional stability over the long term. Society to a large extent, insists on regional stability. Highway work apart from necessity is a visible recognition of attention being paid to people in general - they all use the highway system.

"Work load management is another stabilizer, so that only gradual changes occur for both the local construction industry and Ministry resource requirements."

OTHER MATTERS

Improved Sales Effort Required - Surplus Land

"The Ministry is very cognizant of the need to sell surplus property and staff is constantly reminded to review this regularly.

"However, timing of sales is also important, and sales and values realized have increased in the past two years as the market has been more active as the following table shows.

	No. of Sales	Revenue
1982/83	253	$6,379,778
1983/84	234	$4,331,408
1984/85	237	$5,355,636
1985/86	275	$13,240,079
1986/87	284	$8,384,358

"The auditor has stated that an independent appraisal on five properties (100 acres of farmland) was obtained. The appraisal indicated that as of August 1987 these properties were valued at $1.4 million. I am informed that although these properties are adjacent to Hwy. 401, they are, at present, land locked, and therefore could only be sold to adjacent owners. Sooner or later we hope a developer will approach us with a proposal to buy them. At that time, they may be worth $1.4 million. At this time we could only realize a fraction of that amount for them."

Tighter Controls Required over Use of Vehicles

"The Ministry has attempted to monitor this situation for many years. The most recent official guidelines are dated 1979. Work is ongoing at the present time to reach an acceptable solution. A new set of guidelines will be presented to Operations Committee of the Ministry, in December 1987, for comments and hopefully approval.

"The Ontario Government Fleet Administration Council also has a project on this matter, at this time, which will affect several ministries. We understand that no decisions have been made.

"The unique situation described in the report was corrected when it was drawn to our attention by our Internal Audit Branch."

4.15 Adequate Controls, Personal Income Tax Revenue, Ministry of Treasury and Economics

Revenue from Provincial personal income taxes totalled $8.6 billion for the 1987 fiscal year. This amount represented over 40 per cent of provincial tax revenue and almost 30 per cent of total provincial revenue.

Personal income taxes are assessed and remitted to Ontario by the Federal government under the Tax Collection Agreement.

SUMMARY

SCOPE AND OBJECTIVE

Our audit focused on determining whether the Province has adequate controls and procedures to ensure that it receives all the personal income tax revenues to which it is entitled under the Federal/Provincial Tax Collection Agreement.

CONCLUSION AND FINDINGS

We were satisfied that the Province had adequate controls and procedures in place.

COMMENTARY

Background

The Government of Canada bears the full cost of administering the tax system, with the exception of the Ontario Tax Credit Program, for which it exacts a fee as specified in the Agreement.

Personal income tax revenue remitted to Ontario is based on taxes assessed regardless of whether or not assessed amounts are actually collected by the Federal government.

Comments on Ministry Audits

Estimation Process

The flow of personal income tax revenue to Ontario is primarily based on the amount of taxes the Federal government expects to assess over the forthcoming year. In most years, the federal estimates have been low. As a result, Ontario has been successful in negotiating adjustments to the federal estimates in order to more accurately reflect actual cash flow.

These adjustments are based upon certain indicators of the expected future performance for Ontario's economy. Corroborating evidence about economic trends is obtained from the Ministry of Revenue to attempt to ensure that the forecasts are realistic. In addition, computer models are used to estimate personal income tax revenues based on actual tax assessment information from prior years, received from the Federal government.

Additional Assurance Provided

Approximately two years after the end of each taxation year, the federal Department of National Revenue prepares a Statement of Income Taxes Payable to the Provinces and Territories and copies are sent annually to each of the provinces and territories covered by the Agreement. This statement is audited by the Auditor General of Canada and an opinion on its fairness is provided.

The preceding information was included in a report dated September 30, 1987. The Ministry has not had an opportunity to respond formally.

Auditor's Report for 1987

CHAPTER 5
COMMENTS ON AGENCY AUDITS

5.1 Introduction

The term Crown Agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. These are defined in Section 1 of the Audit Act.

A listing of agency of the Crown and Crown controlled corporation audits, by category, for the year ended March 31, 1987 is included as Exhibit 6.

5.2 Operating Deficiencies, Liquor Control Board of Ontario

The Liquor Control Board of Ontario (LCBO) regulates the sale and transportation of liquor throughout the Province and establishes stores for the sale of liquor to the public.

Liquor sales by the Board for the 1987 fiscal year totalled $1.8 billion while the Board's net income was $637 million. The Board's audited financial statements for the year ended March 31, 1987 are reproduced in Volume 2 of the Public Accounts.

SUMMARY

SCOPE AND OBJECTIVES

In conjunction with our 1987 fiscal year audit of the Board's financial statements, we also conducted a value for money oriented review of certain Board operations. Our objectives were:

- to assess how well the Board was managing its liquor inventories;
- to evaluate the staffing levels in stores to ensure that the stores were being operated in an economical and efficient manner; and
- to review the Board's efforts in monitoring the operations of its Durham warehouse.

CONCLUSIONS AND FINDINGS

INVENTORY MANAGEMENT

Excessive Inventory Levels

The Board's liquor inventories were not well managed. We estimated that over $70 million was tied up in excess inventories. According to Board officials, this amount was in the $30 to $50 million range.

Whatever the actual amount, our concern was that excess inventories could be costing the Board between $3 and $7 million annually in interest costs. In addition, excessive inventory levels result in increased costs in related areas such as warehousing, purchasing and product administration, transportation and records management activities.

Listing/Delisting Policies Not Being Followed

Controls over the Board's listing policies were inadequate. We noted:

- **a lack of documentation to support decisions made by the Listing Committee for new listings; and**
- **products ranked lower for quality and price were granted listings over products ranked higher in the same category.**

Controls over the Board's delisting policies were also inadequate. This resulted in:

- **approximately 550 delisted products being carried in inventory as of March 31, 1987 at a cost of $4.5 million. Of this, $3.7 million related to products that had been delisted for over one year; and**
- **up to three months of stock of delisted products being purchased from domestic suppliers, causing difficulties in disposing of these stocks.**

STAFFING OF STORES

A number of stores were overstaffed, both in management and staff positions. Rectifying this situation and extending the agency store concept could save the Board in excess of $30 million annually.

MONITORING DURHAM WAREHOUSE OPERATIONS

The Durham warehouse continued to be plagued with numerous operating problems. We were informed that management was actively working on correcting these problems.

GENERAL

We recognized that a number of priorities in such areas as general management, human resources, customer service and marketing, etc., were being reviewed by the Board with the assistance of external consultants. These reviews will hopefully address the concerns expressed in this report.

COMMENTARY

INVENTORY MANAGEMENT

Background

The Board's inventory included about 3,000 listings of domestic and imported liquor products. During the 1987 fiscal year, inventory ranged from a low of $149 million to a high of $247 million.

At the time of our audit, the Board operated 616 stores and four warehouses for receiving, storing and supplying all of the Board's stores and licensees with spirits, wines and beers. The warehouses are located in Durham, London, Ottawa and Thunder Bay.

Excessive Inventory Levels

Stores

Overview

In the 1987 fiscal year, inventory on hand in the Board's stores averaged $87 million. Individual store managers are responsible for the ordering and controlling of inventory in their stores.

We reviewed over 500 stores and conducted a variety of tests to determine what we considered to be reasonable inventory levels. These included the use of Order Target Tables, Stores Monitoring Reports and a comparison of inventory on hand for similar stores in terms of daily sales. **We concluded that the inventory in stores could be reduced by approximately $40 million or almost 50 per cent of the inventory value with little, if any, adverse effect on product availability to the public. In the opinion of Board management a more realistic reduction would be in the $20 to $30 million range. However, there were no detailed calculations to support these figures.**

Lack of Enforcement of Ordering and Forecasting Procedures

In forecasting product demand and ordering inventory, stores used Order Target Tables.

Our review of 10 stores revealed that seven stores did not follow procedures accurately. In fact, when requested by us, four stores could not even locate the necessary Tables. Additionally, store auditors and supervisors were not ensuring that forecasting and ordering procedures were being followed. Because of this, there was a risk of over-ordering and stockpiling of products.

Inadequate Monitoring of Inventory Levels

Monitoring of inventory levels in stores by management was virtually nonexistent and a store manager's performance was not evaluated on the basis of how well inventory levels were managed. Consequently, store managers did not have any incentive to reduce inventory levels. As well, certain management reports produced for monitoring inventory levels by highlighting problem stores were not being used by Board personnel. For example, the Stores Monitoring Reports provided important information such as inventory on hand in terms of daily sales. We reviewed these reports for a period when inventories should generally be at their lowest point. We noted that 18 stores had over three months of stock on hand.

We also discussed inconsistencies in inventory levels between stores with basically similar operations. For example, in one period two similar sized stores with similar delivery schedules, carried 10 days and 121 days of inventory on hand respectively.

In our opinion any inventory system, no matter how sophisticated, will not be effective unless periodically monitored by senior management.

Lack of a Defined Customer Service Standard

Product availability is a key criterion in providing good customer service. However, the Board did not have a defined customer service standard for product availability nor ways of measuring it. For example, if the Board were to define 98 per cent as its customer service

standard, it would not permit more than two out of 100 brands to be out of stock (stockouts) at any one time. The perception of store managers was that in order to maximize customer satisfaction, stockouts should not be allowed to occur. This has contributed to over-ordering of products, especially the slow moving brands.

We noted that the Board did not have the ability to monitor stockouts on a regular basis. No records were maintained of stockouts or of customer complaints arising from stockouts. Without this information, establishing acceptable minimum and maximum levels of inventory by brand is difficult.

Subsequent to our field work, an analysis was done by the Board's Inventory Management Department on store inventory levels. The results of the analysis indicated that the slow movers were largely contributing to the excess inventory levels. Specifically, approximately 65 per cent of all brands listed at stores were selling on the average, half a bottle a week per store and a further 30 per cent of brands were selling an average five bottles a week per store.

Board management informed us that excess inventory levels were inevitable given the large number of slow moving brands and the current procedures of ordering by stores in case lots (12 bottles per case) rather than in bottles. However, the Board has established sales quotas by brand and by store. We questioned the necessity of carrying so many slow moving brands, especially those selling on average half a bottle a week, when the majority of them were not meeting the Board's store sales quotas.

We felt that the Board's policies tied up large amounts of capital in inventories for the satisfaction of only a few customers and accordingly, warranted reassessment.

Warehouses-Domestic Brands

Overview

There are approximately 1,700 listings of domestic brands. For the 1987 fiscal year, the warehouse inventory for these brands averaged $41 million.

For our review, we selected the four-week period ending January 1, 1987 and representative fast, average and slow moving brands. We calculated what we considered to be reasonable inventory levels for these brands using Order Target Tables and compared these levels to actual inventory on hand.

We concluded that warehouses could be carrying excess inventories of $18 million or 45 per cent of total stock of domestic brands. According to Board officials, a more realistic estimate of overstocking would be in the $6 to $12 million range. However, no detailed calculations were provided to support these figures.

Lack of Consistency in Application of Existing Procedures

In a 1983 audit report we commented on excess domestic inventory levels in warehouses. It was our opinion that inventory was 40 per cent in excess of requirements. Management had responded that the fault lay in procedures developed in 1962 which required updating. We noted that while these procedures were updated in January 1985,

they were only being followed by the London and Ottawa warehouses. However, Durham and Thunder Bay warehouses which account for 60 per cent of domestic inventory on hand, were not following the procedures.

Discussions held with the warehouse order clerks indicated that there were inconsistencies in the methods employed for ordering and forecasting. We noted that the Durham warehouse used the Order Target Tables only for the fast moving brands. Slow movers were not reviewed regularly and were often ordered in bulk to cover two to three months of shipments to stores. The Thunder Bay warehouse did not have any documented system of forecasting.

The effects of various forecasting procedures were confirmed in a study done by the Board's Inventory Management Department. It concluded that domestic spirits and wines were turning over almost three times as fast in the London and Ottawa warehouses as compared to the Thunder Bay warehouse.

Warehouses-Imported Brands

Overview

Imported inventory for the 1987 fiscal year averaged approximately $55 million. There are approximately 1,300 listings of imported brands of which only about 200 brands are ordered monthly. The bulk of the remaining brands are ordered and received usually six months in advance to cover sales during the winter months.

We selected 16 imported brands for our review of a four-week period, ending on June 22, 1986. We calculated what we considered reasonable inventory levels for these brands using the Board's ordering guidelines and compared these levels with the actual inventory on hand. Based on our extrapolations, we concluded that the inventory level was $20 million in excess of requirements or 40 per cent of total inventory value of imported brands on hand. Board officials felt that the excess was more in the $7 to $12 million range. Again, no detailed calculations were provided to support these calculations.

We noted the following weaknesses:

Examples of Overstocking

We observed several examples of overstocking, the more significant ones being:

- A number of imported vintage and other products costing approximately $750,000 were kept in the warehouse for at least one year before being made available for sale.

- There were nine brands, currently available in stores, with over one year's inventory on hand. We noted that one of these brands had almost 16 years of inventory on hand valued at a cost of $112,000.

We were informed that since 1985 management has been experimenting with a computerized ordering system and uses it for ordering approximately 125 fast moving brands. We were also advised

that the Board's management has successfully reduced inventory levels for the 125 brands and was considering adding more brands to the system.

Optimum Reorder Points Not Analysed

We noted that no analysis had been done to determine the frequency and volume of orders to be placed to minimize the costs incurred for ordering, warehousing and the tying up of capital. For example, the Board ordered certain imported brands monthly whereas other brands were ordered anywhere between four to eight times a year. Our review indicated that these ordering decisions were purely judgemental. In our opinion, the frequency and volume of orders placed should be weighed against costs incurred for ordering, storing and tying up capital.

During our 1983 audit we were informed by management that the Board was planning to conduct such a study. The study was to determine optimum levels of imported liquor to be warehoused and the practicability and economics of more frequent shipments during the winter. At the time of our review no such study had been completed nor was any planned.

Listing/Delisting Policies Not Being Followed

Overview

The Product Administration Department receives requests from suppliers to list their products with the Board. The Board through its Listing Committee, made up of senior Board officials, normally evaluates these requests twice yearly. Evaluation is based upon each product's quality, price, perceived public demand, marketability, relationship to other similar products already listed by the Board and performance in other markets.

The Board also has the power to remove or delist products under certain conditions, including:

- failure of a brand to achieve its sales quota within 18 months after the brand becomes available for sale; and

- failure of a brand to maintain the annual sales quota established by the Board.

In most cases, once a product is delisted the Board tries to dispose of its warehouse stocks by reducing the retail price of the product. It requires the supplier to reduce the wholesale price by 25 per cent and refund this amount to the Board for quantities on hand.

Our review of policies and procedures revealed the following:

Listings

- **Decisions to list a product were not adequately supported in minutes of the Listing Committee for the 1986 and 1987 fiscal years.** For instance, a subcommittee, which assists in evaluating the product, did not keep any minutes, working papers or notes to support its evaluations.

- Apparently, because of a policy of supporting Ontario wineries, approval for new listings of Ontario products was virtually automatic. There was no evidence that established criteria such as public demand, marketability and intended promotional support, were considered. Of 20 domestic submissions reviewed, all of which were granted listings, 14 failed to maintain their sales quotas in 1986. In our opinion, had these products been adequately evaluated they would likely not have received a listing.

- The vast majority of submissions from suppliers were incomplete. They did not provide any information with respect to their intended advertising and sales promotional support. For example, we reviewed a sample of 23 submissions. Only one was adequately supported. Of the other 22, 13 were subsequently granted a listing.

- Management informed us that the key criterion for a new product listing was the product's quality in relation to its price. **We noted several instances where products ranked lower for quality and price were granted listings over products that ranked higher in the same category. There was no documentation to substantiate these decisions.**

- All product samples received for new listings were tasted and priced. This was done in spite of advance knowledge that the Listing Committee would be willing to entertain only a few products in certain categories (e.g. brandies). During the 1986 calendar year approximately 1,200 submissions for imported listings were received, tasted and priced. However, only 45 products were listed.

An increase in submissions for new listings means greater costs to the Board as associated costs are borne by the Board. In this connection, the Board's 1988 fiscal year budget for its quality control department was expected to double to almost $144,000, to allow for three additional persons in the tasting area.

Furthermore, the Board did not charge application fees for listings. Instituting such fees may assist the Board towards offsetting its product evaluation and associated administrative costs.

Delistings

- There were no formal procedures for disposing of delisted products. Consequently, delisted products remained in the system for unreasonable periods of time. **We noted approximately 550 delisted products in inventory as of March 31, 1987 with a cost of $4.5 million.** Approximately 83 per cent or $3.7 million related to products that had been delisted for over one year.

- **Rebates due from suppliers for delisted products were not being collected promptly.** For example, a review of 49 delisted products indicated that as of March 1987 the Board had collected rebates on only three products. Approximately $100,000 due since January 1986 remained outstanding.

- We noted several instances where additional quantities of the product were purchased from the supplier subsequent to the product being delisted. **For example, in March 1986, the Board purchased an additional 500 cases of a product after it had been delisted, bringing the total inventory on hand at that date to 1,247 cases. A year later, the Board still had 539 cases on hand at a cost of $15,690.**

  In the case of domestic products, an October 1986 Board decision now requires purchasing up to three months of stock from the supplier after delisting.

We acknowledged that the Board is a monopoly and that it believes its listing and delisting policies are fair and impartial. However, we felt that these policies were cumbersome and inefficient, and they had resulted in the Board carrying an excessive number of slow moving brands of liquor. This was evident from the fact that 80 per cent of all brands listed by the Board accounted for only 20 per cent of total annual sales.

We were informed that a major review of the policies was underway.

STAFFING OF STORES

Background

Of the Board's 616 stores, 564 are self-serve and 52 are conventional stores. Stores are classified as 'AAA', 'AA', 'A' 'B' 'C' or 'D' depending upon sales volume. 'AAA' stores have the largest sales volume (over 1,145,000 bottles per year) while 'D' stores have the smallest volume (up to 78,000 bottles per year).

During the 1987 fiscal year the Board employed approximately 2,700 permanent and 2,700 temporary employees in its stores. Salaries and benefits for store employees for the 1987 fiscal year totalled $116 million.

Lack of Formal Criteria for Staffing

We reviewed the staffing process used by the Board. We found that there were no formal criteria for staffing and measuring staff productivity. We were informed that management used informal guidelines which included the number of transactions per employee (i.e. number of bottles sold per employee) and the average value of sales per employee per day to determine the number of staff required per store.

We were informed that the Retail Division had introduced a new measurement package called "Performance Indicators ". These indicators are expected to improve the current system for staffing and monitoring store performance.

Inconsistencies Exist in Store Staffing

We used the 1986 fiscal year for our review. We compared 60 stores with approximately similar sales levels and noted that

staffing costs, when compared to sales volume, varied significantly between stores.

We reviewed an additional 170 stores and took into account variables mentioned by management, which could distort comparison of staffing costs between stores, such as large beer or licensee sales and the number of brands carried by stores. **We concluded that there was potential for the Board to save over $18 million annually in salary costs and related benefits.**

Potential Noted for Reduction in Management Staff

There were approximately 250 'A' and 'B' stores. A typical 'A' and 'B' store, on average, operates with a staff of nine and five persons respectively, including in each case, a manager, an assistant manager(s), a clerk and the cashier/shelf stockers. These stores are either operated on a single day shift for example from 9 a.m. to 6 p.m., or on an overlapping double shift - a day shift from 9 a.m.to 6 p.m. and an evening shift from 3 p.m. to 10 p.m.

For single shift stores, a manager and assistant manager are both on duty. For double shift stores a manager and assistant manager work the day shift and the second assistant manager works the evening shift.

In our opinion, 'A' and 'B' stores were overmanaged. For example, we noted the following:

- Both the manager and assistant manager duties were purely supervisory in nature. They did not normally stock shelves, substitute as cashiers, etc. Also, the assistant manager's job specification was exactly the same as that of a manager in 'C' and 'D' stores. Consequently, this could lead to an overlapping of tasks.

- In double shift stores the two shifts overlapped. For example, from 3 p.m. to 6 p.m. the stores had one manager, two assistant managers, and a clerk on duty. The clerk's position could also be considered supervisory, since that person managed the store in the absence of the manager or assistant manager.

- Scheduling of staff showed instances where each management staff member had only one or two persons to supervise.

We felt that an adequate level of supervision could still be maintained in 'A' and 'B' stores by eliminating one assistant manager position per store. In view of potential savings of up to $9 million per annum, the Board should consider this possibility.

The Agency Store Concept Needs to Be Expanded

The Board operated 69 agency stores under agreement mainly in remote parts of northern Ontario. Each agent operates a general store or is a tourist outfitter. Liquor purchased from the Board is stored in premises separate and apart from all other consumable goods.

Agents receive a 10 per cent discount from the normal retail price on liquor, wine and imported beer purchases from the Board of up to $89,000 and a 5 per cent discount thereafter. On domestic beer, the agents receive a 10 per cent discount from the normal retail price regardless of volume.

Under the agency store concept, the Board has no overhead expenses such as salaries, maintenance, rent, etc. In addition, there is no investment in inventories or capital expenditures. Consequently, we felt there was merit in extending the agency store concept to the Board's existing 'D' stores. At the time of our audit, there were 129 such stores with a sales volume of less than $1 million each.

According to our calculations, the Board could save approximately $5 million per annum in operating costs by converting existing 'D' stores into agency stores.

We noted that the Board has been considering expanding the agency store concept to other parts of Ontario since 1985. The Board advised that action had been held in abeyance pending resolution of the issue to permit sales through "corner stores".

MONITORING DURHAM WAREHOUSE OPERATIONS

Background

The construction of the Durham warehouse was completed in January 1984 at a cost of approximately $105 million. The warehouse was scheduled to be operational by September 1984. However, as a result of delays in equipment installation and problems encountered in testing the equipment, the warehouse did not become operational until September 1985.

Projected Staffing Levels Not Met

A cost justification study, prepared in 1981 projected that in the 1987 fiscal year a total of 119 persons would be required to operate the Durham warehouse in non-peak periods. A manpower requirement evaluation by warehouse management staff in 1983 again reconfirmed the manpower requirements at 119 persons.

During the 1987 fiscal year the Durham warehouse had on average, an operating staff of 161 persons. Additional staff requirements have been projected for 1988. **We also noted that the Durham warehouse had higher staffing costs on a per case basis than the other non-automated warehouses operated by the Board.**

Number of Stores Serviced Was Below Projections

The 1981 cost justification study noted that upon becoming fully operational, the Durham warehouse was designed to service 360 stores. Service load was expected to decrease by 60 per cent for the London warehouse and 52 per cent for the Ottawa warehouse.

We noted that during the 1987 fiscal year the Durham warehouse, although fully operational, was only servicing 241 stores. At the same time, the number of stores serviced by the London and Ottawa warehouses had gone up slightly.

Technical Deficiencies Reported in Consulting Study

In July 1986 a consulting firm was hired by the Board at a cost of $18,500 to study the operations of the Durham warehouse.

The firm's report, submitted in September 1986, concluded that although numerous technical problems existed, in general, the system was working as it was designed to and was operating as intended. However, some major problems were reported as follows:

- There was considerable excess manpower.
- There were serious problems with quality of orders shipped.
- Crane performance was poor. For example, during July and August 1986, the cranes broke down 76 times per day, on the average.
- Preventative maintenance was falling behind schedule.
- There was concern that operators were not adequately trained nor did they fully understand the system in order to be able to operate it in the most efficient manner.
- The Board's listing of 3000 domestic and imported brands exceeded what the system was capable of handling. This was not an immediate problem as not all of the brands were carried in inventory at the warehouse. However, there was potential for serious delays in shipping in the future if the situation was not monitored closely.
- As of September 1986, the warehouse was achieving only 54.7 per cent of utilization capacity.

We were advised that management was actively working on correcting the problems noted. We were also informed that management believed 90 per cent of all problems had been resolved.

RESPONSE

The Board's Chairman and Chief Executive Officer sent his reply to our report on October 15, 1987.

GENERAL

"... senior managers and I have devoted considerable time coming to grips with the problems you have outlined. Even while your staff were conducting the audit, we had taken measures to put in place a better system of performance measuring and monitoring. As you have noted in your summary this is being done with the assistance of external consultants, selected by tender in June. The terms of reference for this major undertaking reflect our need for significant actions to be taken during the six month period - not merely the production of another report.

". . . there are observations in the report with which we concur, some with which we disagree, and others that are open to debate. In the attachment, I will deal with each item. . ."

INVENTORY MANAGEMENT

Excessive Inventory Levels

Stores

"Following discussions with your staff, we conducted a detailed review of inventory positions, as at the period under review by you. This indicates that while some excess inventories are being carried in the retail system, the excess is not close to that stated in your report.

"Our analysis, based on detailed review of inventory levels of all products in all stores, related to the previous period of sales, indicates an excess of between $11.2 to $18.2 million, (17% to 27% of inventory value) depending on assumptions made regarding the average inventory required to maintain an acceptable level of service at the minimum sales range.

"Even these levels are higher than could be expected since they were made with benefit of hindsight and are quite theoretical.

"With the dynamics of retail demands and the LCBO's focus on customer service, it is quite normal for store staff to be on the high side of forecasts.

"Therefore, we believe that the figures you quote are overstated and may be attributable to the testing methods used.

". . . the theoretical overstocking is mainly in the low end. This group contains the products that are most in flux i.e. the newly introduced products, the remnants of unsuccessful product launches, the beginning and end of regular seasonal products such as coolers.

"Clearly, our managers have the most difficulty with this group, and this difficulty has been compounded by:

- focussing our attention on customer service, which at the store level has been translated into never being out of stock of the brands listed
- the continued proliferation of products listed (approximately 200 additional over this time last year), which has partially been a consequence of new product introduction such as coolers, and cream-based drinks
- our policy of ordering in case lots, which we believe to be more economical with our present distribution system
- the forced listing of new Ontario wine products into approximately 250 retail outlets, and
- startup problems at Durham, contributing to over-ordering.

"With present procedures, I believe that the retail distribution system of 600 plus stores can only improve their inventory position by *approximately $8 - $10 million. This improvement will* be achievable by closer monitoring by senior management. To this end a performance indicator report, tested in the Eastern region in January to March, 1987, has now been rolled out to the other regions. This reporting system will enable regional directors and district supervisors to focus attention on individual store operations that appear to be out of line."

Lack of Enforcement of Ordering and Forecasting Procedures

"Additionally, all store managers are now forecasting product demand by adherence to Order Target Tables, the use of which will be monitored in future, by store supervisors and auditors. A training video is being developed that will assist in stressing the importance of inventory management."

Inadequate Monitoring of Inventory Levels

"The aforementioned performance indicators (report) package contains an element to monitor inventory turns. From discussions with our consultants and your staff it is evident that at least one year of data gathering and analysis will be necessary to effectively interpret results and optimize performance.

"Additionally, the current stores monitoring report is being refined to increase its usefulness. Results from this monitoring will be a feature of regular quarterly reporting in future from the Retail Division to our Executive Directors' Committee."

Lack of a Defined Customer Service Standard

". . . our analysis of store inventories address some of your comments in this section. The work of our external consultants in the areas of assortment planning, appropriate listings policies and other performance standards will enable us to address the appropriate level of customer service and satisfaction.

"Stockouts are now being monitored on a regular basis.

"As a matter of operating policy, this Board maintains eight locations known as all brand stores. These are in major centers and ensure that so long as brands are listed and meeting provincial (not store) quotas there is an outlet for them, and access to the marketplace. As a monopoly, we believe that this access is not only fair and reasonable, but essential for better customer service. This number, incidentally, was reduced gradually from 16 to the current 8 between 1979 and 1985. This element of our distribution system will be reviewed by our external consultants."

Warehouses-Domestic Brands

Lack of Consistency in Application of Existing Procedures

"Since we began discussions on this matter a number of initiatives has been undertaken:

- a prototype ordering system has been installed in Ottawa. Dependent on its usefulness, the system will be extended to other warehouses

- a task force was formed to identify and get slow moving products out of all warehouses. Domestic stock in excess of 4 periods' supply amounting to approximately $2.5 million will be dealt with by October 31st

- each warehouse has ceased ordering stocks in excess

- stock transfers have been arranged between warehouses to balance levels

- Durham warehouse is now following procedures for all brands, and

- Thunder Bay which has recently been computerized will adhere to procedures by December 31, 1987

"We agree that some 10 listings exceeded two years' inventory, and that this is approximately .5% of the total.

"Nevertheless the steps as outlined above will correct similar excesses in future."

Warehouses-Imported Brands

"The activities outlined under domestic brands have now been extended to imports. All fast moving stock not turning at least 10 times is being put on a monthly ordering system. A staff position is being recruited to assist the ordering function in more timely reviews. Unfortunately, we are now into our periods of buildup for the Christmas season, and it is likely that inventories will increase rather than decline. It is our intention to reassess the situation immediately following this heavy sales season.

"With regard to the examples cited, you are correct. Some Vintages products could be kept in a warehouse for up to one year. This is a conscious decision which ensures a balanced portfolio that can be released over an extended period.

"Of the nine brands referred to, the following explanations are offered:

- two brands were in categories affected by ethyl carbamate

- two brands were duty free purchases in anticipation of the land border stores that were delayed in opening

- two brands were delisted

- two brands were 'one time' purchases of miniatures where our forecasts were wrong

- one brand was an ordering error."

Optimum Reorder Points Not Analysed

"The prototype ordering system for imported products was implemented in 1983. While a study on optimum reorder points per se was not conducted, several studies to automate the purchasing function were undertaken. Purchasing staff, in conjunction with the inventory management group, reviewed several packages available

on the market. In addition, a consulting firm reviewed the ordering function and developed the basis for an LCBO programmed ordering system. Instead the decision was taken to expand the prototype system hardware and to put additional brands on it. During this timeframe staff were to become more knowledgeable as to LCBO requirements.

"Our external consultants are presently doing an analysis of appropriate inventory levels of imported products from which will evolve new purchasing policies."

Listing/Delisting Policies Not Being Followed

"As you have noted a major review of these procedures is underway, with the assistance of external consultants. Our next major listing meeting is slated for November 10th and at that session it is our intention to test the viability of a proposed revision.

"... Ontario products are subject to supplementary policy statements. Unfortunately, in the spirit of the government's winery assistance program, certain criteria were not considered, and we neglected to obtain documented approval through the Executive Directors Committee. That has now been done."

Listings

"It is true that the cost/quality ratio is the key criterion. Even though a particular product may have a higher mark, the sub-committee may choose another with a slightly lower rating, because of other factors. These could include the reputation and reliability of the supplier, and the agent's history for selling a particular line.

"In future our sub-committee, which blind-tests for quality will retain assessment documentation for one year.

"Incomplete submissions and switch listings will be addressed in the revised policy.

"It has been our policy to accept all new product submissions, without charge. It is incorrect to say that we will only entertain a few products in certain categories. If this were the case, we might miss out on newly emerging products that become instant successes. Recent experience in this business has seen significant fluctuations in consumer taste. Once again though, it is our intention to review these policies.

"Your comment with regard to the increased budget for our quality control department is inaccurate in that it is only minimally affected by increased listings. The bulk of the increase is due to recommendations flowing from the Report of The Royal Commission headed by The Honourable Mr. Justice John H. Osler."

Delistings

"You are quite correct that formal documentation of our delisting procedures was not in place. This has now been done. We have completed detailed analyses of the delisted items and, as they represent approximately 60,000 cases over 4 warehouses, and need to be dealt with in an orderly manner, it will take until December to

phase them out. Due to the time required to deal with suppliers at any one time we are likely to have about 4 months' items on hand. This amounts to approximately 150 brands. Since April 1987 we have had a new policy in place that accelerates the markdowns. This should assist in moving product out of the total system faster.

"Of the rebates noted as uncollected only 1 remains outstanding. In this case of $772.90 we have not dealt with the supplier for two years, hence have not had an opportunity to offset.

"We are putting in place an interim procedure that should eliminate purchases of domestic product while possible delists are under appeal. However, it is still possible that some imports may be ordered. With our new listings policy we hope to shorten the time frames for appeals and reduce such instances to a minimum.

"With regard to ordering switches before old brands are depleted, it is our policy to do this when we are down to stock in only one warehouse.

"Your statement of the Board's decision re three months' purchases is inaccurate, in that this is permissive and not automatic. As the sole distributor of beverage alcohol, we believe it appropriate to buy limited supplies at discounted rates that can be passed on to the customer. Unfortunately, in the case that you cite, an error was made."

STAFFING OF STORES

Lack of Formal Criteria for Staffing

"As you have noted, our Retail Division has introduced a performance indicator package. This was developed and tested in the Eastern Region in late 1986, early 1987. Rollout to the other regions began in April and will be completed this month. Among other things this report provides for monitoring on-duty labour costs. This data and the development of customer service standards underway with external consultants will provide the basis for the development of formal criteria for store staffing."

Potential Noted for Reduction in Management Staff

"We are in disagreement with the conclusions reached in this area. Firstly, we do not believe that a sampling of views from seven stores is an adequate base on which to form this judgement. Secondly, the duties of the manager and assistant manager are not purely supervisory in nature. When replacements are necessary to cover off vacation time or other absences, naturally we do not replace with managerial staff, but rather divide up duties, and consequently provide developmental opportunities. If we were to eliminate these positions we would at the very least have to replace with clerks, and therefore likely achieve savings of less than $1 million.

"Nevertheless, we have had a working group review the functions of the assistant managers and agree that better definition of jobs is necessary to clearly delineate responsibilities and hence accountabilities."

The Agency Store Concept Needs to Be Expanded

" . . . the LCBO was requested to put this matter on hold pending further government consideration of the "beer and wine in retail stores" issue. Certainly had both initiatives gone forward we might have created agencies in areas that might not be financially viable if retail outlets obtained the right to also sell wine and beer.

"The LCBO will now be recommending that the agency store program proceed."

MONITORING DURHAM WAREHOUSE OPERATIONS

Projected Staffing Levels Not Met

"The estimates referred to in the report were made without benefit of operating a comparable facility. The total operating difference amounts to 42 persons. This is comprised of the following areas:

1. Maintenance staff estimated at 22 actual; requirement is 35. The difference is 13.

2. Security was originally budgeted as an outside agency. We modified this with four persons in supervisory capacities. The difference here is 4.

3. Computer controls and engineering were estimated at 10. We require 15, thus a difference of 5.

4. The balance is in management (2) and general warehouse personnel. The major reasons for the added 18 are increased staff at monitoring sensitive equipment areas and checking completed orders. As well, we have increased staff in the manual pick area as this has grown beyond our original expectations."

Number of Stores Serviced Was Below Projections

"As you have noted earlier we have had startup problems with the Durham operation. It did not make sense to expand the service area while we are still trying to eliminate those startup difficulties. The distribution system will be reviewed as a consequence of recommendations on customer service by our external consultants and a rationalization of our delivery system will occur in 1988."

Technical Deficiencies Reported in Consulting Study

"Items identified in the consultant's report have been actively worked on since the fall of 1986. Some highlights are:

1. Crane supplier returned in January and February of 1987 to conduct extensive refitting of our cranes. Crane errors have been reduced.

2. Resolution of concerns regarding case quality, training, safety are all underway at the present time.

3. The maintenance group has been expanded and a new preventative maintenance awareness program has been introduced to all staff.

4. An industrial engineer position has been identified. Recruitment is being actively pursued.

5. Throughput has been increased and is continuing to improve.

6. The new listings policy contemplated should help alleviate some of the problems with brand proliferation and its negative effect on throughput.

"There is a schedule of tasks established to deal with other concerns in the engineering report."

5.3 Cost Evaluation Suggested for Police Operations, The Niagara Parks Commission

The Niagara Parks Commission was established in 1885. Its objectives are to carry out a program of preservation, restoration, commemoration, beautification and attraction for the millions of visitors who visit the parks' 2,800 acres annually.

The Commission's audited financial statements for the year ended October 31, 1986 are reproduced in Volume 2 of the 1986-87 Public Accounts.

SUMMARY

SCOPE AND OBJECTIVES

We reviewed the Horticultural and Engineering Departments' maintenance expenditures and the Commission's police force to assess the adequacy of:

- procedures for the acquisition of maintenance goods and services; and
- the system to ensure that the police force was being fully utilized.

CONCLUSIONS AND FINDINGS

TENDERING

The Commission had good procedures to ensure that suppliers of maintenance goods and services were selected in a fair and competitive manner.

UTILIZATION OF POLICE FORCE

Overall, the police staff was being fully utilized. However, no analysis had been performed to evaluate whether the use of a police force was the most cost efficient method of performing many of the assigned duties.

COMMENTARY

TENDERING

Overview

During the 1986 fiscal year, the Horticultural and Engineering departments acquired over $900,000 in goods and services. These included cars, agricultural and road materials, elevator repairs, restoration and paving work.

Proper Competitive Selection Procedures - Supplies and Services

The Commission has established procedures for the tendering of goods and services. **We reviewed 41 purchases of goods and services covering the Horticultural and Engineering departments and noted that:**

- **Purchases were subject to a competitive selection process in accordance with established procedures.**
- **The lowest bid was selected in all instances.**

UTILIZATION OF POLICE FORCE

Overview

The mandate of the Niagara Parks Commission Police includes the protection of Commission property, the enforcement of sections of the Niagara Parks Highway Traffic Act and Liquor Control Act and public relations work within 2,800 acres encompassing a 35-mile stretch of the Niagara River.

The force has a permanent staff of 20 which increases to 50 in the peak summer months with the addition of seasonal help (special constables) whose major function is traffic flow assistance. Of the $1 million cost incurred during the 1986 fiscal year, approximately $810,000 related to the salaries and benefits of permanent staff while almost $159,000 pertained to the seasonal staff.

Allocation and Monitoring of Staff

Each day is broken down into two 12-hour shifts with each shift consisting of a corporal, dispatcher and two constables. During our review we noted that the allocation of staff was sufficient to ensure that all areas of the park were being patrolled.

We also noted that the monitoring of constables' activities during their shifts was adequate. For instance, officers radio information to the dispatcher on their locations, destinations and tasks being performed. The dispatcher records the time and information in a log book which is periodically reviewed by the Chief of Police.

In addition, all officers produce a general occurrence report at the end of each shift describing their activities for the day. Seasonal staff are assigned an area of work, normally an intersection, and are observed on an ongoing basis by the constables as part of their regular patrols.

Lack of Analysis Justifying Need for Police Force

The Niagara Parks Commission Police are unique in that they are the only park police in the province licensed by the Ontario Police Commission. The permanent staffing level of the force consists of a chief, a sergeant, four corporals, eight constables, four dispatchers and two recruits in training. Approximately 50 per cent of their time is spent picking up cash from restaurants and shops owned by the

Commission and delivering it to the cash office and bank, as well as protecting Commission property through regular patrols. The remainder of their time is spent on general police duties including dealing with traffic accidents, thefts, property damage and lost property.

In reviewing their duties and the related cost, we questioned whether more economical alternatives were not available for most of their responsibilities. **For instance, we felt that:**

- **The cash handling duties could be more economically assumed by a private security firm.** While the Commission indicated they had reviewed this option in 1978, they were unable to provide us with any documentation of their review.

- **The protection of Commission property could be performed by either a private security firm or lower paid security personnel employed by the Commission.**

- **The regular policing duties such as dealing with thefts and traffic accidents could be handled by the Niagara Regional Police Department.**

We also noted that other provincial parks, such as the St. Lawrence and St. Clair Parks Commissions and Ontario Place, utilize a lower level of security such as security guards or internally trained seasonal help. In addition, Ontario Place contracts the services of the Ontario Provincial Police (OPP) on an "as needed" basis. This, however, does not include regular patrols of the park.

We recommended that the Commission perform an analysis comparing the cost and related benefits of maintaining its own police force with the use of other less costly alternatives for the three main activities of security, cash pick-up and delivery, and regular policing duties.

RESPONSE

The General Manager of the Commission responded to our comments on September 25, 1987.

UTILIZATION OF POLICE FORCE

"Over the years, there have been several studies of the law enforcement and security requirements to serve The Niagara Parks Commission. In 1968, the Crown Attorney for Welland County (now Region of Niagara) and advisors of the Ontario Police Commission concluded that a permanent force augmented by seasonal help would best serve the needs of the Commission. Also, direct control of the Special Constables by the Commission was considered far more advantageous than depending upon the Police service by a municipal force over which the Commission would have little or no control. In 1978, an Operational Review by Management Board of Cabinet recommended the Commission assess the cost/benefits of alternative methods of providing police and related services. The Commission reviewed cash handling by a private security firm and concluded there was no cost savings in procuring equivalent service on a seven-day-a-week basis. Again in 1985, the Minister of Tourism in response

to recommendations of the Standing Committee on Procedural Affairs stated that the Vice Chairman, and the advisor to the Ontario Police Commission, visited The Niagara Parks Commission's police operation and expressed satisfaction with the quality of police service provided by its force and the co-ordination with the Niagara Regional Police, the O.P.P. and the R.C.M.P. in policing the Niagara border.

"You make reference to Ontario Place as a comparative for using a lower level of security. The cost of security for Ontario Place currently amounts to $746,000 for a relatively small area - 54 acres and includes the services of the Ontario Provincial Police for four months. You will find upon checking that the O.P.P. do make regular patrols of the Park. The majority of the Park is closed for eight months of the year and attendance is 2.5 million. The Niagara Parks Commission by contrast spends $1,000,000 for security covering 2,800 acres and 35 miles of parkway. The Park is open year round to 12-14 million visitors annually.

"I can assure you the Commission is conscious of the proper utilization and cost benefit of maintaining this form of security and will continue to monitor it on an ongoing basis . . . Setting aside the cost/benefit question for a moment we also attach significant importance to availability on demand, full control, as well as the image of officers in the Park."

5.4 Observations on Cost Overruns and Other Matters, Ontario Housing Corporation

The Corporation was established in 1964 under the Ontario Housing Corporation Act. It is empowered to carry out housing projects, including the planning, construction and management of projects undertaken, and to acquire and dispose of land in its own name.

The Corporation's audited financial statements for the year ended December 31, 1986 are reproduced in Volume 2 of the 1986-87 Public Accounts.

SUMMARY

OBSERVATIONS

During our current year's audit we noted:

- **significant cost overruns and questionable expenditures in some Metropolitan Toronto housing projects;**
- **high incidence of workers' compensation claims by maintenance staff at Metropolitan Toronto housing projects; and**
- **most 1986 contracts were awarded without public tender by one of three housing authorities visited.**

COMMENTARY

Questionable Housing Project Expenditures

The Metropolitan Toronto Housing Authority is the largest of 58 local housing authorities managing rent-geared-to-income housing on behalf of Ontario Housing Corporation. The Authority is responsible for managing over 120 housing projects in Metropolitan Toronto providing accommodation to low and modest income families, senior citizens and handicapped persons.

During 1986, 15 of the Authority's housing projects were managed by three private property management companies acting as agents of the Corporation through management agreements. With the exception of tenant selection, these companies provided a total management service including leasing, rent collection, day-to-day tenant involvement, and building and ground maintenance. The 1986 operating expenses of the privately managed projects were approximately $31 million, while management fees paid to the companies totalled $370,000.

In our 1985 audit report to the Corporation we reported on the lack of monitoring of the private management agreements. One of the weaknesses we noted was that significant cost overruns had been experienced at some housing projects and that prior approval had not been obtained for the additional expenditures.

Our current year's audit again revealed significant cost overruns on maintenance expenditures, particularly with respect to two housing projects managed by one company. While such budgeted expenditures were $1.4 million, actual expenditures totalled $1.8 million. The Authority could not provide explanations for the additional $400,000.

Furthermore, our review of costs incurred revealed many instances of questionable expenditures (apparent duplicate billings, etc.). We provided detailed information on these expenditures to the Corporation. We were informed that the Corporation was reviewing the information in consultation with the Ministry of the Solicitor General and the Ontario Provincial Police.

High Incidence of Workers' Compensation Claims

When a Metropolitan Toronto Housing Authority employee is injured at work the Corporation notifies the Workers' Compensation Board of the employee's injury. The employee is compensated as follows:

- Administrative expenses and doctors' bills are paid by the Board. These are subsequently reimbursed by the Authority.
- Full salary is paid by the Authority for the first three months of absence.
- After three months of absence, there is an option to use sick leave or vacation credits in order to continue receiving full salary, or have the Board pay 90 per cent of the salary to a maximum of $31,500 per year. In the latter instance, the Board is reimbursed by the Authority.
- After a period of six months, the employee is considered to be on long-term disability and is covered by the government-wide Long Term Income Protection Plan.

We noted that 164 claims were filed in 1986 by the Authority's approximately 630 maintenance staff, comprised mainly of caretakers, labourers, and servicemen. Statistically, these figures translate into 2,591 claims per 10,000 employees.

We reviewed claim statistics by industry compiled by the Workers' Compensation Board. **As indicated by the following table, the Authority's injury rate for its maintenance staff was much higher than the most comparable group - janitorial workers, and even higher than the highest risk groups - mining and diamond drilling.**

	Injuries per 10,000 Employees
Janitorial Service	486
Mining Contractors	1230
Diamond Drilling	1995

In 1986, approximately 8,000 days (average: 13 days per employee) were lost as a result of Workers' Compensation claims at a cost of over $750,000 to the Authority.

During our visits to four of the six districts, the project managers we spoke with expressed concern about possible abuse of the workers' compensation system. In some cases they had even indicated on the employer's report to the Workers' Compensation Board that there were reasons to doubt the history of some injuries. However, we found no evidence of efforts by the Corporation's senior management to pursue this matter with the Board or to initiate corrective measures to more closely monitor compensation claims.

Tendering Guidelines Not Followed

The Corporation's Field Manual procedures require housing authorities to use public tenders, through newspaper advertisements, when acquiring goods and services estimated to cost over $10,000. An exception to this requirement is when the goods and services to be purchased are specialized in nature, or the number of known suppliers is limited. In these situations, housing authorities are allowed to invite tenders from their own supplier list (invitational tenders) rather than advertising in the newspapers.

During our visit to the North Waterloo Housing Authority we noted that the Authority had entered into 18 contracts over $10,000 during 1986. **Thirteen contracts totalling $700,000 were awarded through invitational tenders. The other five contracts totalling $100,000 were awarded through public tenders.**

In reviewing the contracts awarded through invitational tenders, we observed that:

- Seven of the contracts were awarded for re-roofing work totalling $508,000. While we were informed that some of the work was of a specialized nature, we noted that there were over 80 roofing contractors working in the proximity of where the Authority is located. Additionally, while reviewing two other housing authorities we noted that they had publicly tendered their roofing contracts.

- We were informed that several jobs had not been publicly tendered because the Authority was advised by its regional

office that the work should be done with 1986 unused funds. Therefore, in order to spend the funds before the fiscal year end, there was no time to request tenders from interested suppliers.

In this regard, we found that one contract to install aluminum siding was awarded for $82,000, or $32,000 more than the staff estimate of $50,000. Similarly, another contract to cover wood siding and window frames was awarded for $31,000 - more than double the staff estimate of $12,000.

We questioned the Authority's decision to waive public tenders. The use of public tenders should be encouraged to ensure the best price is obtained and reduce the possibility of favouritism or collusion with particular suppliers.

RESPONSE

The following response was received from the Chairman of the Corporation on October 9, 1987.

Questionable Housing Project Expenditures

"Early in 1986, based on an internal audit recommendation the Metropolitan Toronto Housing Authority embarked on a review of their internal controls associated with cost overruns being experienced within some of the housing projects managed by private property management companies on their behalf.

"Based on this review new tender specifications were developed that incorporated a control mechanism that holds private property management companies accountable for cost overruns experienced while providing management services to the Housing Authority.

"Private management budgets are now determined through the tendering process. Tenderers are provided three-year cost/budget histories and a detailed maintenance specification, and are required to tender a three-year Labour and Maintenance Operating Budget which cannot be exceeded. The successful tenderer must also provide a Performance Bond to guarantee compliance with the maintenance specification and to ensure the tendered budget is not exceeded. In extenuating circumstances where a particular item is a 'non-contract expense' written authorization from the Housing Authority must be obtained by the private management company in advance of the expenditure.

"On July 6th, 1986 the first tender incorporating the improved control features was awarded for the Bleeker/Wellesley project.

"On October 1, 1987 tenders for the acquisition of property management services for an additional twelve Metropolitan Toronto Housing Authority developments were awarded. The housing authority intends to call tenders and use the new performance contract for the balance of its private management portfolio upon expiry of existing agreements.

"Metropolitan Toronto Housing Authority will also be undertaking a review of its organization to improve internal financial control and accountability with respect to monitoring of the private management agreements."

High Incidence of Workers' Compensation Claims

"The Metropolitan Toronto Housing Authority acknowledges that a problem presently exists within their organization pertaining to workers' compensation claims.

"The housing authority is considering a number of options to address the matter. For example:

- examining the merits of retaining a consultant to investigate the causes and problems of the rate of WCB (Workers' Compensation Board) claims and long term absences;

- meeting with WCB to engage their assistance and also to obtain more information about a program which encourages claimants to return to work earlier.

"Consideration will also be given to trying to solve this problem through a co-ordinated approach of all parties involved; management, labour and WCB."

Tendering Guidelines Not Followed

"Ontario Housing Corporation's existing policy establishes the necessary controls to ensure that best prices are obtained for quality of work required and fairness to suppliers is maintained. To reinforce the current policy a directive will be issued to all local housing authorities emphasizing the proper process to be followed. The Operations Review and Audit Branch will also be reviewing the tendering process in the Corporation during the 1987/88 fiscal year."

5.5 Potential for Savings in Administration Costs, The St. Lawrence Parks Commission

The objectives of the Commission are to develop, control, manage, operate and maintain the St. Lawrence Parks. The Commission has several major tourist attractions including Upper Canada Village and Old Fort Henry and operates 17 campgrounds along the St. Lawrence waterway system.

Receipts for the 1987 fiscal year were $4.4 million and disbursements totalled $13 million.

SUMMARY

Observations

During our current year's audit we noted that:

- **by eliminating some functions in administrative areas, salaries and benefits could be reduced by approximately $430,000; and**

- **by closing certain attractions during the last few uneconomical weeks of the operating season an additional savings in excess of $200,000 could be achieved.**

COMMENTARY

Overview

In the 1987 fiscal year, the Commission employed 116 permanent and 642 seasonal staff during the peak period of its operations and expenditures for salaries and benefits amounted to $9.4 million.

Excessive Administration Expenses

We performed a comparison of administrative salary expenses between the Commission and the Niagara Parks Commission which also offers tourist attractions and recreation facilities.

We acknowledged the differences in the relative size of their operations and particular mandates; however, we felt they were sufficiently similar to enable a general comparison of the relative level of administrative salary expenses of each.

	Most Recent Operating Year	
	SLPC ($ million)	NPC ($ million)
Total Revenue	4.4	35.8
Total Administration Expenses	12.4	28.9
Total Administration Salaries	1.2	1.1
Administration Salaries to Revenues	26.7%	3.1%
Administration Salaries to Expenses	9.4%	3.8%

In discussing these comparative figures with the Commission we were informed that the Commission estimated the ratio of administration salaries to expenses could be reduced to 6 per cent from the 1987 level of 9.4 per cent. Using this estimate, the Commission could reduce administration salaries and benefits by approximately $430,000.

In this regard, the Commission was aware of a duplication of effort in a number of administrative areas such as payroll, accounts payable, purchasing, revenue, etc. This duplication resulted from the Commission operating two similar administration offices; the central Finance and Administration Division (head office) located in Morrisburg and the Merchandising, Parks and Recreation Division located in the Administration building at the Upper Canada Village.

The Commission has budgeted $900,000 over the next three years to renovate the old restaurant building at the Upper Canada Village for the amalgamation of both offices.

We were informed that a review of administration staffing needs by the Commission will be carried out upon amalgamation of the administrative offices.

Potential Benefits from Shortening Operating Season

The Commission operates 17 revenue generating parks. Their operating season generally runs from May 15 to October 15 of each year. While the operating season is not fixed to certain dates, we were informed that the length of the operating season had not been recently reviewed by the Commission.

During our review of the Parks operating season, we noted that:

- Occupancy rates for the combined months of September and October averaged 9 per cent of campsites available, whereas the occupancy rates for July averaged 50 per cent.

- For all parks, salaries of seasonal staff greatly exceeded the revenues received in the months of May and October.

In addition, we observed that for Upper Canada Village and Old Fort Henry, seasonal staff salaries alone for these attractions exceeded the revenues received in the months of September and October. The revenue for these months covered only 70 per cent of such salary costs.

We were informed that a similar pattern of salary costs to revenues existed in the previous operating seasons of the Commission. We estimated that if the Village and Fort were closed after the Labour Day weekend, the Commission could realize additional savings of approximately $200,000 in salaries alone.

While acknowledging there are considerations such as the social and economic impact on the area, we recommended that the Commission review the length of the operating season and consider earlier closing dates for those parks and attractions which operate at large deficits during September and October.

RESPONSE

The Chairman of the Commission responded on October 14, 1987 to our comments.

Excessive Administration Expenses, and Potential Benefits from Shortening Operating Season

"The St. Lawrence Parks Commission as a Schedule 1 Agency of the Provincial Government of Ontario receives its financial resources through the Legislature in order to carry out the priority programs and policies on behalf of the Government. As you can appreciate these programs as they apply to the Commission have either an economic or social orientation and it is my responsibility to ensure that these programs and policies are implemented with the highest degree of efficiency and effectiveness. This concept, that the Commission is entrusted with both a social and economic mandate, is critical in any analysis of how the Commission functions.

"Numbers of staff and the length of operating season have been singled out in your audit. I appreciate the need for more formalized methods to allocate staff, but, at the same time my staff has identified that the Commission has experienced significant downsizing of its complement. This has been achieved through privatization of certain

elements of the programs and review and termination of other redundant components. I accept the spirit of your recommendation and will continue to have staff define and refine our methodology.

"The efforts to centralize and streamline our administration have been identified in your report and we appreciate the assurance that the Commission is headed in the proper direction. The dividends resulting from this adjustment will accrue over a number of years and it is hoped that the targets set for downsizing our administration will be accomplished."

5.6 Matters of Concern, Downsview Rehabilitation Centre, Workers' Compensation Board

The Workers' Compensation Board raises funds from the Province's employers, in order to provide compensation to workers who are injured on the job or contract an occupational disease. The Board's audited financial statements for the year ended December 31, 1986 are reproduced in Volume 2 of the 1986-87 Public Accounts.

The audit of the Board is carried out by a public accounting firm appointed by the Lieutenant Governor in Council. Under the Audit Act, the Provincial Auditor is required to provide appropriate direction to the accounting firm and the firm is required to report the results of the audit to the Provincial Auditor. In addition to the annual audit of the financial statements of the Board, the accounting firm normally audits a segment of the Board's operation from a value for money perspective.

SUMMARY

SCOPE AND OBJECTIVES

This year's audit included an assessment of the adequacy of the health care environment and the overall use of resources at the Downsview Rehabilitation Centre.

CONCLUSIONS AND FINDINGS

While the health care environment was rated highly, improvement was warranted in the Centre's use of resources. Of particular interest were the following observations:

- **Landholdings seem excessive as the Centre's facilities are located on only seven acres of the 65-acre site of prime industrial land.**
- **The lack of standards to assess employee productivity may have contributed to possible overstaffing.**

During the course of the audit, it also became apparent that the stated mandate of the Centre is presently beyond the scope of its capabilities.

COMMENTARY

Background

The Board operates the Downsview Rehabilitation Centre, which has provided rehabilitation assessment and treatment services from its present location since 1957. The Centre has an annual operating

budget of approximately $20 million and a total staff of 385 comprised of medical, paramedical and support personnel. In 1986, the Centre serviced over 13,500 injured workers.

Health Care Environment

In terms of general quality of services, the Canadian Council on Hospital Accreditation has given the Centre its highest rating, a full three-year approval.

Landholdings in Excess of Requirements

The Centre is presently located on 65 acres of prime land at the junction of Highways 400 and 401 in Metropolitan Toronto. This land has a market value approximating $20 million.

The actual buildings and facilities are located on only seven of the 65 acres. It is questionable whether the Centre needs all this land to support its current and future programs.

It was recommended that the Board reexamine its requirements for the existing land.

Staff Productivity Measures Required

The operations of the facilities and support services associated with ongoing programs, have developed as established routines over time. Few standards for productivity or employee performance measurement exist.

At present, the workload at the Centre is easily managed by the current level of staff. For instance, it was noted that the very large increase in workload created by the 1985-86 Early Admission Program was handled in most areas by existing staff. This program has since been discontinued.

In light of potential changes to the Centre's operations, formal operating standards should be developed to assist management in assessing employee productivity and projecting future staff requirements.

Several departments, in fact, have been making strides in this direction. The Works Department has developed performance standards for service levels, breakdowns and energy consumption. Also, ongoing review and assessment are being done for the activities of the Housekeeping, Medical Secretaries and Social Work Departments.

On a broader basis, the Centre should obtain productivity and related information from other comparable institutions. This would be particularly helpful to departmental supervisors when developing productivity or performance standards.

Centre's Mandate Should Be Reassessed

The Centre's mandate includes returning the patient (i.e. injured worker) to his or her regular job, or arranging modified or different employment. **These important objectives appear to rest more properly with the Workers' Compensation Board as a whole. As a medical support service facility, the Centre is limited in its ability to fulfill the role.**

For instance, work assessment practices at the Centre do not attempt to match the present capabilities of the patient with the physical demands of the job. Rather, this is done through the Job Opportunity Bank System, which was developed and is being successfully utilized by the Board.

Furthermore, patient data maintained at the Centre covers only the period for which the injured worker is a patient. Information on actual recovery and return to employment is generally not even available at the Centre.

Additionally, a number of recent changes and economic factors have necessitated operational changes. For instance, following the economic recession in the early 1980's, there was a major increase in both the number and duration of claims. This created an urgent need to manage the quality of such claims and the Centre's role changed to place an increasing emphasis on assessing the worker's entitlement to compensation.

This created the perception in the workers' eyes that the Centre's primary role was one of compensation adjudication rather than rehabilitation. In essence, the Centre's existing organization and resource structure is not positioned to fully meet the needs of the injured worker.

The Board should take early action to determine the optimum role for the Centre. Only then can the ability of the existing organizational structure to fulfill this role be assessed.

The foregoing comments were included in a report issued to the Board by the appointed auditor. As at October 16, the Board was in the process of preparing a formal response.

5.7 Newly Established Crown Agencies

Three Crown Agencies subject to the Audit Act were established during the 1987 fiscal year.

Innovation Ontario Corporation

This Corporation was established effective September 15, 1986 by a regulation made under the Development Corporations Act. Its objects include encouraging and assisting in the acquisition, development and demonstration of technological products, processes and services in Ontario and providing financial assistance and incentives by way of loans, guarantees or the purchase of shares or other securities.

Rent Review Hearings Board

This Board was established effective December 15, 1986 under the Residential Rent Regulation Act, 1986. Under the Act, the Board is responsible for providing an appeal process to landlords or tenants who may not be in agreement with rent review decisions made by the Minister of Housing. The Board may also hear matters referred to it by the Minister.

Tobacco Producers' Assistance Fund

The Fund was established on March 26, 1987 by Order in Council made under Section 5 of the Ministry of Agriculture and Food Act, as part of a program designed to encourage eligible tobacco farmers to discontinue tobacco production. Under the program, grants may be made or expenses allowed from the Fund for the purposes of the tobacco producer exit program, including acreage payments, alternative land use grants and other special grants. The program is jointly funded by the Governments of Canada and Ontario and is authorized by a tripartite agreement between the two Governments and the Ontario Flue-Cured Tobacco Growers' Marketing Board.

Each of the new Crown Agencies are agencies of the Crown and are audited by this Office.

Audits have been completed of the Innovation Ontario Corporation and the Rent Review Hearings Board for their respective periods of operation to March 31, 1987. The initial audit of the Tobacco Producers' Assistance Fund will be carried out for the period from its inception to March 31, 1988.

Auditor's Report for 1987

CHAPTER 6
PUBLIC ACCOUNTS OF THE PROVINCE

6.1 Preparation of the Public Accounts

The Public Accounts, which are published in three volumes, are prepared by the Ministry of Treasury and Economics under the direction of the Treasurer of Ontario as stipulated in section 13 of the Ministry of Treasury and Economics Act. This section reads as follows:

> "The Public Accounts for each fiscal year shall be prepared under the direction of the Treasurer and shall be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year."

The audit of the Public Accounts consists of an examination of the financial statements of the Province appearing in Volume 1, on which the Provincial Auditor expresses an opinion, together with a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

(a) in which the Province has an investment, or

(b) which have borrowed from the Province, or

(c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of the expenditure for each ministry, such as salaries and wages, employee benefits, travelling expenses and other payments. This expenditure is shown under two main categories, Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any relevant comments would be included in this Chapter of our Annual Report.

6.2 Financial Statements of the Province

General

The audited financial statements of the Province for the year ended March 31, 1987 are reproduced as Exhibit 1 of this Report. The financial statements and notes disclose in summary form the financial activities of the Province for the fiscal year, and report on the significant aspects of financial position at the close of the fiscal year.

The transactions of the Province are presented through the Statement of Consolidated Revenue Fund Transactions in summary form under the following three categories of government activity:

- budgetary transactions, representing the Province's operational activities involving the raising of revenue from various sources on the one hand, and the expenditure for various government programs on the other;

- non-budgetary transactions, representing the lending, investment and special account administration activities; and

- financing transactions, representing borrowing and repayment activities by the Province for its own needs.

The Province also borrows on behalf of Ontario Hydro. Provincial debentures are issued and the proceeds are advanced to Ontario Hydro in exchange for bonds with the same terms and conditions. In any year, the overall end result of these reciprocal transactions is that payments are equal to recoveries. Since these transactions are not part of the Province's own budget plan they are not included in the Statement of Consolidated Revenue Fund Transactions. They are, however, disclosed in Note 5 to the Financial Statements of the Province (see Exhibit 1).

The Statement of Financial Position reflects the financial claims that have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by others on the Consolidated Revenue Fund. Since expenditures on fixed assets do not represent claims on other parties and are not considered to differ from any other service to the public, they are not reported as assets but are expensed as budgetary transactions in the year of acquisition.

Summary of Significant Accounting Policies

On the basis of evidence examined, the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts. The Provincial Auditor also expresses an opinion as to whether the stated accounting policies have been applied on a basis consistent with the preceding year.

Accordingly, an integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on page 1-2 of Volume 1 of the 1986-87 Public Accounts, which forms part of Exhibit 1 of this Report.

Such a Summary is included as an integral part of the financial statements in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by the private sector and those followed by the Province of Ontario.

6.3 Financial Statement Presentation

General

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants was established in March 1981, and was authorized by the Institute to issue Statements regarding matters of accounting and auditing in the public sector. The Committee's objective in issuing such Statements is to make recommendations that will improve and harmonize public sector financial reporting, accounting and auditing practices.

In September 1986, the Committee issued a Statement entitled "General Standards of Financial Statement Presentation for Governments". This Statement sets out 32 recommendations applicable to Ontario which deal with general reporting principles and disclosure standards for government financial statements.

PSAAC Statement Recommendations

With four exceptions, Ontario's Financial Statements comply in all material respects with the recommendations. One exception is a recommendation dealing with the disclosure of information related to acquired physical assets. However, it is acknowledged by PSAAC that infrastructure (e.g. highways and bridges), the major component of such assets, requires further study.

The remaining three recommendations are interrelated and deal with a fundamental aspect of the basis of reporting - cash or accrual basis.

As covered in the Summary of Significant Accounting Policies in the Public Accounts, Ontario's financial statements are prepared using the cash basis of accounting. In the case of cash outflows, this basis is modified to allow for an additional 30 days to pay for debts incurred during the fiscal year just ended.

The Office of the Treasury, responsible for financial statement preparation, is of the opinion that the present cash basis of accounting is precise, well-understood and no less informative, and is appropriate to the needs of the two primary user groups - legislators and the general public.

This Office agrees with that opinion.

6.4 Provincial Auditor's Opinion Explained

General

The Provincial Auditor's Opinion, reproduced in Exhibit 1, represents the result of our audit of the financial statements of the Province. This opinion essentially takes the form prescribed by the accounting profession in Canada. A disadvantage of a standard wording is that the opinion may become a symbol in itself and the specific messages that the auditor wishes to convey may not be clearly understood. In fact, recent events in the private sector provide evidence of what appears to be an "expectation gap" between what an auditor does and what the reader expects the auditor to do. The purpose of this section is to explain, by going through the report phrase by phrase, the message we are trying to convey.

The Provincial Auditor's Opinion essentially consists of two paragraphs. The first paragraph indicates the nature of the work performed. The second paragraph outlines the Provincial Auditor's opinion based on this work.

Our Examination

I have examined the statement of financial position of the Province of Ontario as at March 31, 1987 and the statements of consolidated revenue fund transactions, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions for the year then ended. . .

The financial statements of the Province are prepared by the Office of the Treasury under the direction of the Treasurer of Ontario. The purpose of our examination is to provide an objective look at the information presented in the financial statements and provide an opinion thereon.

Although not specifically mentioned as being covered by our examination, the Summary of Significant Accounting Policies and the Notes to the Financial Statements are an integral part of the financial statements and are subject to audit.

. . . My examination was made in accordance with generally accepted auditing standards . . .

In conducting the audit certain standards are met. These "generally accepted auditing standards" are those set out by the Canadian Institute of Chartered Accountants. These standards relate to the quality and nature of work to be performed.

In summary, they require:

- adequate technical training and proficiency in auditing;
- due care and an objective state of mind;
- adequate planning and proper execution;
- proper supervision of assistants;
- study and evaluation of internal controls on which the auditor intends to rely;
- obtaining sufficient appropriate audit evidence; and
- the issuance of a report.

. . . and accordingly included such tests and other procedures as I considered necessary in the circumstances . . .

Many procedures are performed on a test basis. To examine all or most transactions would be both impractical and uneconomical. The auditor's professional judgement dictates both the choice from available procedures and the extent to which they are applied.

Results of Our Examination

. . . In my opinion . . .

The Provincial Auditor's comments on the financial statements are prefaced with the words "In my opinion". What this means, in the

context of our opinion on the Public Accounts, is that a high degree of assurance, not absolute or complete assurance, has been obtained regarding our opinion on the fairness of the financial statements.

Absolute assurance is not possible due to factors such as the following:

- Much of the evidence available to auditors is persuasive rather than conclusive in nature. For example, evidence supporting the recoverability of certain loans and advances, although strong, is not conclusive. Also, although selected internal controls to safeguard the Province's financial assets are examined and tested, there is no guarantee that such controls will not be breached from time to time.

- Testing is used as a means of obtaining audit assurance, as opposed to a 100 per cent examination of all transactions and balances.

Instead the auditor decides, based on his professional judgement, the highest degree of assurance that can be obtained at a reasonable cost. In the case of the audit of the Public Accounts, this level of assurance was determined to be 99 per cent. In other words, we are 99 per cent confident that the statements do not contain a material error.

. . . these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1987 and the results of its operations and changes in its financial position for the year then ended.

The key words in this sentence are "present fairly" and "in accordance with".

By using the words "present fairly", we are not stating that the financial statements are totally accurate, correct, or true. What we are stating is that the statements do not contain errors in aggregate that would affect the substance of the information reported.

For the audit of the Province's financial statements this year, $60 million was considered to be of a size to affect the substance of the information reported. This is based on our professional judgement and the guidelines outlined in professional literature. It should be noted that $60 million represents approximately one-fifth of 1 per cent of total budgetary expenditures for the current year.

In assessing whether the financial statements "present fairly", we consider whether the underlying accounting records are reliable and the financial information is properly communicated in the financial statements. In this regard, tests and procedures are designed including:

- examination of a sample of transactions to see how effectively the accounting systems prevent and detect errors;

- confirmation of certain balances and transactions to ensure that they are properly recorded;

- review of the estimates and approximations used in the financial statements to ensure they are reasonable; and

- final review of the financial information presented for overall reasonableness.

In most cases these tests are performed to identify errors significantly less than those that would affect the substance of the information reported.

"In accordance with" deals with the basis of accounting used in the financial statements. This refers to the collection of accounting methods selected by the Ministry of Treasury and Economics for the measurement, classification, and disclosure of financial events and transactions.

The auditor's role is to determine within the context of "presents fairly", whether the accounting policies have been followed, and whether they are appropriate and consistent with the preceding year.

6.5 Payments out of the Consolidated Revenue Fund

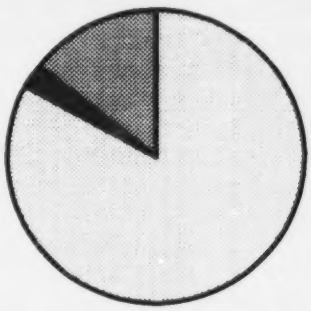
Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. The nature of Management Board Orders is more fully explained in Section 6.7.

A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in Section 6.8.

A comparative summary of payments out of the Consolidated Revenue Fund is as follows:

Payments re:	1987 ($ millions)	1986 ($ millions)
Voted Appropriations		
per Legislative Assembly		
Budgetary Expenditure	27,228	25,045
Loans, Advances and Investments	44	106
	27,272*	25,151*
per Management Board Orders		
Budgetary Expenditure	895	594
Loans, Advances and Investments		24
	895	618
Total Voted Appropriations	28,167	25,769
Statutory Appropriations		
Budgetary Expenditure	4,054	3,658
Loans, Advances and Investments	48	46
Payments from Pension and Related Adjustment Funds	289	257
Special Purpose Accounts	13	75
Retirement of Loans	349	346
Total Statutory Appropriations	4,753	4,382
Total Payments	32,920	30,151

1987 Payments



Voted Appropriations Per Legislative Assembly (82.9%)

Statutory Appropriations (14.4%)

Voted Appropriations Per Management Board Orders (2.7%)

(*) As explained in section 6.8 there were two special warrants issued in the 1987 fiscal year amounting to $6,215,554,800. There were also two issued in 1986 totalling $7,236,104,000. Normally all payments made under the authority of special warrants would be classified separately in the foregoing statement; however, due to the circumstances surrounding these special warrants and to maintain comparability of the Voted Appropriations between fiscal years, payments authorized by the special warrants have been included in payments from Voted Appropriations.

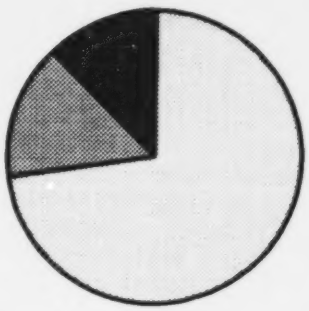
6.6 Statement of Budgetary Expenditure

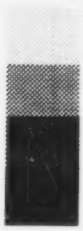
The Statement of Budgetary Expenditure is contained in Volume 1 of the 1986-87 Public Accounts and is reproduced in Exhibit 1 of this Report. A more detailed analysis of total budgetary expenditure can be obtained by the use of the standard accounts classifications. Under these classifications the budgetary expenditure for the 1987 fiscal year, as shown on pages 2-16 and 2-17 of Volume 1 of the Public Accounts, is summarized as follows:

	1987 ($ millions)	%	1986 ($ millions)	%
Transfer Payments	23,362	72.6	20,927	72.5
Administrative Expenditure				
- Salaries and Wages	2,580	8.0	2,378	8.2
- Services	1,016	3.2	790	2.8
- Supplies and Equipment	653	2.0	505	1.8
- Employee Benefits	403	1.3	386	1.3
- Transportation and Communication	200	0.6	214	0.7
	4,852	15.1	4,273	14.8

Other Transactions				
- Public debt expenditure (interest on debentures, etc.)	3,539	11.0	3,250	11.3
- Other	152	0.5	97	0.3
	3,691	11.5	3,347	11.6
Acquisition/Construction of Physicai Assets	273	0.8	307	1.1
Total Budgetary Expenditure	32,178	100.0	28,854	100.0

1987 Budgetary Expenditure





Transfer Payments (72.6%)

Administrative Expenditure (15.1%)

Other Transactions (11.5%)

Acquisition/Construction of Physical Assets (0.8%)

Transfer payments represent expenditure made to individuals, organizations and other levels of government for which the Province does not directly receive goods or services. Such expenditure is made in accordance with legislation or established ministry policy.

The other standard accounts classifications are largely self-explanatory; however, a more detailed description of the type of expenditure included in each classification is contained on page ix of Volume 1 of the 1986-87 Public Accounts.

During the 1987 fiscal year approximately 81 per cent of the total transfer payments (1986, 78 per cent) was expended by four ministries. A summary of this expenditure for the four ministries, including identification of major categories exceeding $150 million, is as follows:

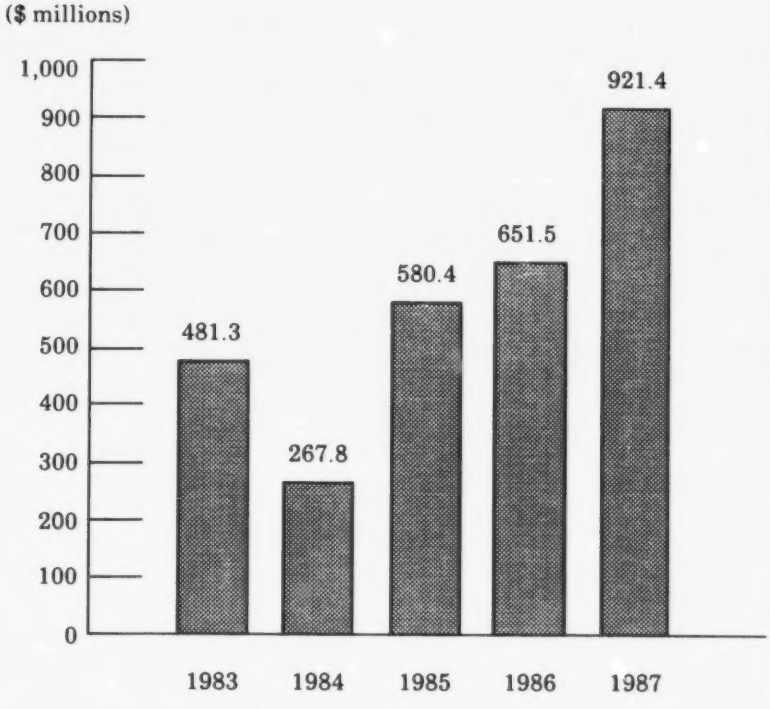
	1987 ($ millions)	1986 ($ millions)	1987 Increase %
Ministry of Health			
Operation of hospitals and related facilities	4,940	4,455	10.9
Payments re physicians' and practitioners' services under OHIP	3,177	2,724	16.6
Ontario Drug Benefit Plan	414	344	20.3
Extended Care Health Insurance Benefits	284	265	7.2
Capital Grants - hospitals and other health facilities	247	232	6.5
Home Care Assistance	201	154	30.5
Other transfer payments	679	575	18.1
	9,942	8,749	13.6
Ministry of Education			
Grants for elementary and secondary education (to school boards)	3,787	3,360	12.7
Other transfer payments	18	17	5.9
	3,805	3,377	12.7
Ministry of Community and Social Services			
Provincial and municipal allowances and benefits	1,520	1,368	11.1
Children's Social Services	531	455	16.7
Adults' Social Services	435	337	29.1
Developmental Services - Adults and Children	275	224	22.8
Other transfer payments	81	71	14.1
	2,842	2,455	15.8
Ministry of Colleges and Universities			
Grants for universities and related organizations	1,436	1,389	3.4
Grants for colleges of applied arts and technology, etc.	647	560	15.5
Other transfer payments	163	143	14.0
	2,246	2,092	7.4
Total	18,835	16,673	13.0

6.7 Management Board Orders

Section 5 of the Management Board of Cabinet Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

A summary of the Management Board Orders issued for the past five fiscal years is as follows:

	Number of Board Orders	Number of Items	Authorized Amounts $
1987	82	356	921,402,100
1986	88	334	651,459,900
1985	103	297	580,422,400
1984	94	265	267,785,900
1983	90	348	481,314,900



By way of additional information, the Management Board Orders for the 1987 fiscal year are summarized by month of issue as follows :

Month of Issue	Number	Authorized $	%
October 1986 to February 1987	23	25,921,700	2.8
March 1987	35	607,389,500	65.9
April 1987	24	288,090,900	31.3
	82	921,402,100	100.0

A listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 2 of this Report.

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, together with explanatory information.

6.8 Special Warrants

Section 4 of the Management Board of Cabinet Act provides for the issue of a special warrant, when the Legislature is not in session, authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

Two special warrants were issued during the year ended March 31, 1987. These special warrants were approved by an Order in Council dated March 26,1986. Payments of $6,215,554,800 were authorized for the purpose of providing for general and necessary government expenditures (as well as the general and necessary expenditures of the Offices of the Chief Election Officer, Ombudsman and Provincial Auditor) on or after April 1, 1986.

As background, these two special warrants were necessitated by the fact that the Thirty-Third Parliament did not convene until April 22, 1986. Normally, payments may be made from appropriations prior to passage of the Supply Act provided a motion of interim supply is adopted by the Legislature. However, since the Legislature did not convene prior to the beginning of the fiscal year, a motion of interim supply was not possible. Therefore, special warrants were required in order to authorize all non-statutory expenditure on and after April 1, 1986.

The amounts of these special warrants were based on the anticipated cash requirements for the first two months of the 1987 fiscal year, and on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply, the first of which was carried by the Legislature on May 29, 1986. On this basis, the full authorized amount of $6,215,554,800 was expended.

The Supply Act, 1986 received Royal Assent on February 12, 1987. The total estimates and supplementary estimates approved by the Act were exclusive of the amount authorized by the two special warrants.

6.9 Transfers Authorized by Board of Internal Economy

Section 88 of the Legislative Assembly Act reads:

> "The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same Vote and the Provincial Auditor shall make special mention in his report of any transfer under this section."

In respect of the 1986-87 expenditure estimates, the following transfers totalling $1,366,840 were made within Vote 3501:

From:	Item 3	Sessional Requirements	$1,096,840
	Item 5	Members' Support Services	270,000
To:	Item 4	Members' Indemnities	270,000
	Statutory	Ontario Electoral Boundaries Commission	20,000
	Statutory	Contributions to Legislative Assembly Retirement Allowances Account, the Legislative Assembly Retirement Allowances Act	1,076,840

6.10 Write-Off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

A total of $71.7 million was written off in the 1987 fiscal year (1986, $30.9 million). The significant increase in write-offs from 1986 related mainly to the following:

- A $26.5 million write-off by the Ministry of the Environment as a result of actions announced in the October 24, 1985 Ontario Budget to relieve municipalities of excess debt burdens resulting from investments in water treatment and waste control facilities.

- A $16.2 million write-off by the Ministry of Industry, Trade and Technology related to uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful.

Other major annual write-offs of uncollectible debts included the following.

The Ministry of Revenue wrote off $13.6 million relating to unpaid taxes and GAINS overpayments. The major write-offs were as follows:

	($ millions)
Corporations Tax Act	6.4
Retail Sales Tax Act	6.3

The majority of these accounts relate to 1985 and prior fiscal years.

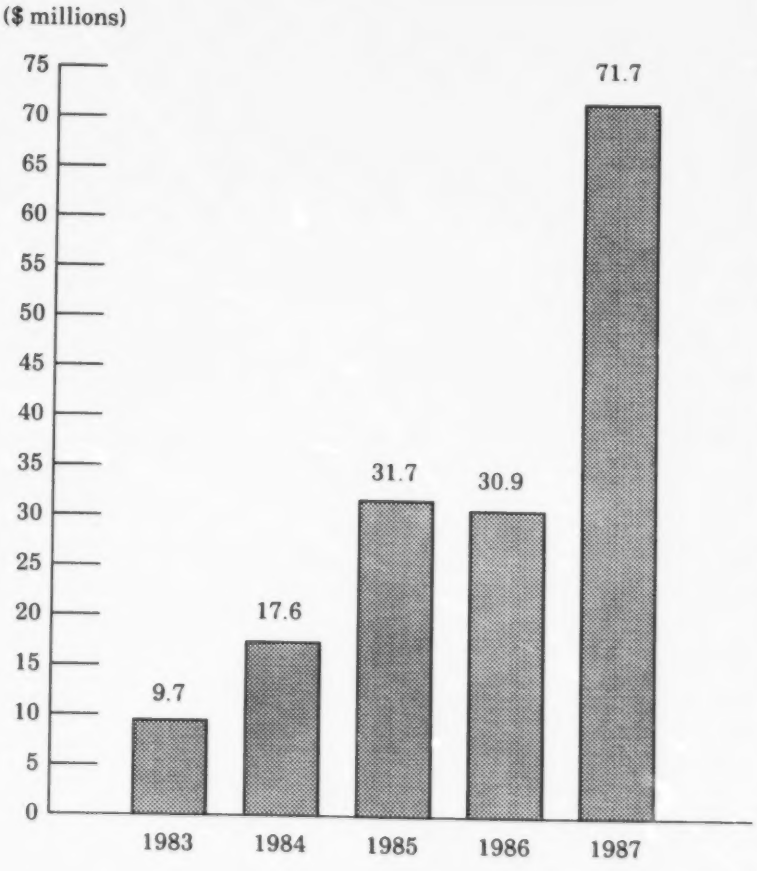
The Ministry of Agriculture and Food wrote off $5.7 million in defaulted guaranteed bank loans under the Ontario Farm Adjustment Assistance Program. This represents the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets. All accounts included in the write-off have been outstanding for at least one year.

Uncollectible accounts totalling $3.8 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. Virtually all of these write-offs involve accounts at least four years old.

The Ministry of Community and Social Services wrote off $2.3 million with respect to overpayments under the Family Benefits Act. The major portion of this write-off relates to individuals whose whereabouts were unknown, or who were unable to repay.

The Ministry of Financial Institutions wrote off $1.6 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off relates to claims/judgements on which no payment has been received for five years, bankruptcy, death or where the debtor has not been located.

Summary of losses deleted from accounts by year



Auditor's Report for 1987

CHAPTER 7
OFFICE OF THE PROVINCIAL AUDITOR

7.1 Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is appointed an officer of the Legislative Assembly, and therefore is not an employee of the Government. The appointment is made by the Lieutenant Governor in Council on the address of the Assembly after consultation with the chairman of the Standing Committee on Public Accounts. The Auditor may be removed for cause at any time by the Lieutenant Governor in Council on the address of the Legislative Assembly.

Administratively, the Office of the Provincial Auditor is distinctly separate from any government ministry or Crown agency, and its employees are not members of the public service. The Office's resource requirements are subject to approval by the Board of Internal Economy, an all-party legislative committee independent of the government's administrative process.

The Audit Act requires the Provincial Auditor to present the Office's annual expenditure estimates to the Board for review and approval. The chairman and vice-chairman of the Standing Committee on Public Accounts have the option of attending the review of the estimates.

In accordance with section 28 of the Audit Act, the accounts related to the Office's expenditure for the year ended March 31, 1987 were audited by a firm of chartered accountants. The audited statement of expenditure, together with the report have been submitted to the Board of Internal Economy and tabled in the Assembly. They are included as Exhibit 7 of this Report.

7.2 Office Goals

Primary Goal

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor seeks to achieve this goal by examining the accounts of the Province and presenting an Annual Report to the Legislature.

Secondary Goal

The Provincial Auditor's secondary goal is as follows:

- to assist deputy ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

This goal does not fall under the legislative requirements in the Audit Act. With respect to agencies, the Provincial Auditor's role is generally stipulated in the enabling legislation. This is not the case however, for ministries. The Provincial Auditor reports to deputy ministers not because of legislative requirement, but because such reporting is recognized as a constructive extension of the Office's primary goal and it is also seen to be in the best interests of good government administration.

The Office's secondary goal is achieved when the Provincial Auditor reports to a deputy minister or to an agency head at the conclusion of each audit. These reports consist of assessments of significant areas covered in the course of audit together with recommendations for improvement.

7.3 Audit Responsibilities

The audit universe in government is comprised of three main audit areas:

- the audits of ministries and the Province's financial statements (public money forming part of the Province's Consolidated Revenue Fund); and
- agencies of the Crown and Crown controlled corporations (as defined in the Audit Act).

The participants in the audit process include internal auditors, public accounting firms and the Provincial Auditor.

Internal Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their responsibilities include the auditing of both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability considerations.

Internal auditors act as key advisors to management by helping to ensure that control procedures are reliable. They generally report to the respective department head and the deputy minister or, in the case of Crown agencies, to the agency head.

In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry and agency internal audit branches.

At or near the commencement of each audit, the auditor in charge meets with the director of the ministry's or agency's internal audit branch to determine the nature and extent of internal audit reviews conducted during the period subsequent to our previous audit. As part of this process, the internal audit working paper files, reports to management and replies from management are reviewed.

Based on this review, our Office's audit work is modified to avoid areas

Public Accounting Firms

Public accounting firms are involved in the audits of some agencies of the Crown and Crown controlled corporations.

A listing of the seven agencies of the Crown audited by public accounting firms for the year ended March 31, 1987 are included as parts (iii) and (iv) of Exhibit 6. The 39 Crown controlled corporations audited by public accounting firms for the year ended March 31, 1987 are also listed as part of Exhibit 6.

Agencies of the Crown

Section 9(2) of the Audit Act stipulates that public accounting firms auditing agencies of the Crown must perform the audit under the direction of, and report to, the Provincial Auditor.

Crown Controlled Corporations

Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor together with a copy of their findings and recommendations to management (management letter).

Matters of interest or significance raised in management letters may be subsequently included by the Provincial Auditor in the Annual Report.

Section 9(3) of the Audit Act permits the Provincial Auditor to review other auditors' working papers and other documents, and obtain explanations and information about the nature and extent of the audit work carried out and the results obtained.

Where the Provincial Auditor believes that the information, explanations and documentation obtained are insufficient, he can conduct, or have conducted, such additional examination as is considered necessary.

Currently the Office reviews working papers and other documents on a cyclical basis of at least once in a four year period.

The Provincial Auditor

Primary Audit Responsibilities

The primary audit responsibilities of the Provincial Auditor involve the examination of the accounts of the Province and the accounts of agencies of the Crown.

Accounts of the Province

In conformity with section 9(1) of the Audit Act, all ministries are subject to legislative audit. The audits, when combined with audit activities related to the accounts of the Province, enable the Provincial Auditor to express an opinion on the Province's financial statements. A listing of the ministry audits covered by this Report appears in Exhibit 5.

Accounts of Agencies of the Crown

Section 9(2) of the Audit Act states that where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Provincial Auditor is to perform the audit. For the year ended March 31, 1987, the Provincial Auditor had direct audit responsibility for 73 agencies of the Crown pursuant to his appointment as auditor by shareholders, governing bodies or under various statutes. These agencies are listed as parts (i) and (ii) of Exhibit 6 of this Report.

Additional Audit Responsibilities

Under section 16 of the Act, the Provincial Auditor is required to examine and report on any matter respecting the Public Accounts if directed by the Standing Committee on Public Accounts .

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

7.4 Audit Activities

Types of Audits

Audits undertaken by this Office are of three types - value for money, attest and compliance. A general description of each of these categories follows:

Value for Money

Value for money audits, covering various government and Crown agency programs and activities, are designed to assess components of the management process related to economy, efficiency and procedures to measure effectiveness.

In essence, these audits are designed to assess whether:

- the program or activity being audited is economically administered, with goods or services being obtained in the right quantities at the right times and the right prices;
- the work is being done efficiently making the best use of the human and material resources available;
- reasonable attempts are being made to measure and report on program results; and
- appropriate and timely information is available to management for decision-making purposes.

In conducting these audits, detailed background information concerning the operations of the program or activity being audited is gathered at the outset. The sources for such information are numerous, and include the Estimates, Estimates briefing books,

minutes of Estimates debates, performance and other management reports, reports regarding similar programs issued by auditors in other jurisdictions, as well as interviews with program/activity personnel.

As part of this process, suitable criteria relating to the particular areas being audited are developed and discussed with management. Criteria may be defined as reasonable and attainable standards of performance and control against which the adequacy of the management process can be assessed. In summary, what practices and procedures should be present to collectively result in a well-managed program or activity?

Once a sound understanding of the areas being audited has been obtained and suitable criteria have been developed, the detailed audit work commences. Primarily this consists of objectively obtaining and evaluating evidence to ascertain the degree of correspondence between the matters subject to audit and the criteria.

In conducting value for money audits, it is not part of the Office's mandate to actually evaluate the effectiveness of programs, or to develop standards to measure efficiency of program delivery. These are ministry/agency management functions. Our responsibility lies in assessing the extent to which these functions have been carried out by management.

Attest

These audits, sometimes referred to as financial audits, are the ones with which the general public is most familiar. They are primarily designed to attest to (express a professional opinion on) a set of financial statements. This attestation (or opinion) relates to whether the operations and financial position of an entity have been fairly presented in compliance with the entity's stated accounting policies, and whether such policies are consistent with those used in the previous year.

The Office conducts attest audits on the annual financial statements of the Province and numerous Crown agencies. An important facet of our attest audit work is the study and evaluation of internal controls. Internal controls represent methods and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. To the extent possible, our audit staff will generally seek to rely on effective internal controls, as they provide us with assurances concerning the information provided by the entity's accounting system. This in turn enables our audit staff to reduce the extent to which the information must be tested.

Generally accepted auditing standards do not, however, require that the auditor rely on internal controls; instead these standards require that the auditor must study and evaluate those, and only those controls, on which he intends to rely.

To rely on internal controls, the auditor must carry out tests to satisfy himself concerning their effective operation. These tests are referred to as compliance tests, as they are concerned with the degree to which the entity's laid down procedures are being complied with.

In addition to the evidence gathered while carrying out compliance tests, the auditor must obtain enough other evidence to support his opinion. In so doing, the auditor carries out what are commonly referred to as substantive tests. These tests are aimed at providing evidence as to the validity of the transactions recorded in, and balances produced by, the accounting system. These substantive procedures, previously referred to in section 6.4 of this Report, include the following:

- confirmation of certain balances and transactions with outside parties to ensure that they are properly recorded;
- review of any estimates or approximations used in the financial statements to ensure they are are reasonable;
- testing of individually significant balances and transactions to ensure they are correctly recorded;
- personal inspection and observation of certain assets (e.g. securities, inventory) to confirm their existence and ownership; and
- final (or analytical) review of the financial information for overall reasonableness.

As part of our ministry audit activities, or on a government-wide basis, the Office also often assesses the adequacy and proper functioning of specific internal controls. These activities are commonly referred to as financial audits.

Compliance

Compliance audits, carried out in ministries and Crown agencies, are designed to assess whether transactions and other aspects of operations are in compliance with legislative or other requirements.

The primary focus of compliance audits relates to legislative requirements. These requirements are embodied in legislation, regulations, orders in council and corporate by-laws. Governments and Crown agencies carry out their operations under the authority provided by relevant enabling legislation. Such legislation may set out directions, conditions and limitations that affect the administration and transactions of these entities and with which they must comply.

Examples of legislative and related requirements, which are normally assessed for compliance as part of our audits, are:

- limits on spending and borrowing;
- the setting of fees by regulation;
- the approval of certain loans specified by orders in council; and
- limitations as to the types of investments that may be made.

A secondary category of compliance audits relates to administrative requirements. Generally, legislation delegates broad financial and administrative powers to governments, ministries and agencies which in turn may establish specific operative rules and directives.

Examples of administrative requirements which may be considered in a compliance audit, are:

- administrative policies, directives and guidelines set out by Management Board of Cabinet;
- financial and accounting policies and requirements set out in the Manual of the Office of the Treasury; and
- administrative and financial requirements set out in memoranda of understanding between Crown agencies and their associated ministries.

Audit of Transfer Payments

General

Transfer payments represent over 70 per cent of government expenditures. Commonly called grants, such payments represent expenditures for which the Province does not directly receive goods or services. They may include payments for specific purposes (such as the funding of school boards and universities) or the unconditional transfer of moneys (such as per capita grants to municipalities).

Attest/Compliance

The Office's attest and compliance activities include the testing of selected transfer payments for proper authorizations and calculations, and for compliance with legislative and administrative requirements.

Value for Money

Government ministries are responsible for ensuring that funds provided in the form of transfer payments are well managed by the recipients, that is, spent with due regard for economy, efficiency and effectiveness. Value for money auditing can assist funding ministries/agencies in the fulfillment of this responsibility.

The impetus for such auditing should come from the funding ministries/agencies themselves, with audits being conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries.

The Provincial Auditor is not directly involved in this value for money audit process. Indirect involvement may arise, however, when the Office is assessing the steps taken by a ministry to satisfy itself that funds provided to organizations are being well-managed.

Inspection Audits of Transfer Payment Recipients

Inspection audits are defined as examinations of accounting records. They do not specifically involve value for money considerations. However, observations of such a nature may arise as by-product of inspection audits.

Section 13 of the Act permits the Provincial Auditor to perform inspection audits of transfer payments made by the Province or any agency of the Crown, and to obtain a full accounting of the disposition of such payments from the recipients. The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit.

Ministry internal auditors may also carry out inspection audits pursuant to the terms of agreements with the grant recipients.

Scheduling of Audit Activities

Ministry Audits

The Office conducts ministry audits on a cyclical basis. This means that, in addition to the annual attest audit work required in ministries for the expression of an opinion on the Province's financial statements, audit activity is conducted in some ministries every year, in others every second year, and in the remaining ministries every fourth year. The frequency of ministry audits depends on a number of factors, including total expenditures, diversity and complexity of operations, and the extent of significant regulatory responsibilities.

These cyclical ministry audits are primarily value for money oriented, normally done on a program/activity basis. The audits are designed to cover all major programs and activities over a four year period.

Audits of ministry expenditure systems that are processed centrally, are done on a government-wide basis at least once over a four year period. Ministry financial systems that are not centralized are done on a ministry by ministry basis, as are the major revenue activities across government.

Agency Audits

Agency of the Crown audits are always conducted on an annual basis. Depending on the dollar values involved, and the extent and complexity of agency operations, Office staff may conduct interim audits to reduce the workload at the end of the year. In addition to the regular attest/compliance audit activities, the Office reviews management's attention to economy and efficiency, as well as measurement of the effectiveness of agency operations.

7.5 Annual Report

Reporting Process

The main body of the Annual Report consists of sections of audit reports on ministries and agencies. The steps in the preparation of the Annual Report are as follows:

- Ministry/agency reports are reviewed by the Office's senior management for matters of significance or interest to the Assembly.

- Selected items and relevant ministry/agency responses received up to October 16 only (due to printing deadlines) are included in the Annual Report.

- The Report is tabled in the Assembly and subsequently referred to the Standing Committee on Public Accounts for review.

- Ministry/agency responses received after October 16, pertaining to sections contained in the Report, are forwarded to the Committee.

- The Committee calls upon representatives of the ministries or agencies to discuss selected sections of the Report in meetings open to the general public.

Annual Report Briefings

The first Annual Report briefing was held prior to the tabling of the 1984 Report.

In 1985, the Standing Committee on Public Accounts passed a motion recommending revised briefing procedures. Consequently, arrangements were made for two separate and simultaneous lockups: one for members of the Legislature and their research staff, and one for representatives of the media. The lockups were concluded with a news conference, at which time the Provincial Auditor was available to answer the media's questions.

A similar procedure was followed prior to the tabling of the 1986 and this year's Annual Report.

7.6 Ministry and Agency Reports

Reporting Responsibility

The Provincial Auditor's secondary goal, as previously noted, is to assist deputy ministers or agency heads in holding their administrations accountable. This goal is accomplished by issuing audit reports on the individual ministries and, for agencies of the Crown, issuing reports and expressing an opinion on their financial statements. Exhibits 5 and 6 provide a listing of such audits.

Reporting Process

At the conclusion of each audit the reporting process involves:

- discussion of the draft report with senior officials designated by the ministry or agency, but not including those to whom the final report is to be addressed;

- revision of the draft report, resulting from the discussion or from the final review by senior Office management;

- issue of the final report to the ministry's deputy minister or, in the case of agencies, to the board of directors and the minister of the associated ministry; and

- further discussion of the report if requested by the ministry or agency.

7.7 Additional Reporting Matters

Special Assignments

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (October 1986 to September 1987) covered by this Report, the Office issued four reports on special assignments initiated by the Standing Committee on Public Accounts.

Assignment	See Section
Courthouses in Ontario	8.3
Graham Software	8.3
Concerns Raised by Mr. Peter Whitehouse	8.3
Termination Settlements	8.3

Special Reports

In addition to the Annual Report, the Provincial Auditor is permitted, by section 12(1) of the Audit Act, to present a special report to the Speaker of the Assembly at any time and on any matter he believes should not be deferred until the next Annual Report. The Speaker is then required to lay such a report before the Assembly. To date, no such special reports have been issued by the Office.

7.8 Public Disclosure of Reports

Annual Report

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

Other Reports

Our individual audit reports issued at the conclusion of each ministry or agency audit, reports to management by the auditors of Crown controlled corporations, or our special assignments for a minister, are not laid before the Legislative Assembly, or a committee of the Assembly. However, the Standing Committee on Public Accounts or any other committee of the Legislature may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are presented.

7.9 Office Organization and Personnel

Organization

The Office of the Provincial Auditor consists of eight branches, each headed by a Director. The Director of Administration and Personnel reports to the Assistant Provincial Auditor, and the remaining seven Directors each report to one of two Executive Directors.

The Office has an Executive Committee, made up of the two Executive Directors, the Assistant Provincial Auditor and the Provincial Auditor. The eight branch Directors, together with the two Executive Directors, the Assistant Provincial Auditor and the Provincial Auditor, collectively comprise the Office's Management Committee.

An organization chart of the Office is presented in Exhibit 3 of this Report.

Ministry and Agency Audit Branches (4)

These four audit branches are responsible for the audits of all ministries and agencies of the Crown falling under the General Government, Justice, Resources Development and Social Development areas. These branches are also responsible for coordinating the Office's relationship with the external auditors of those Crown controlled corporations for which the Provincial Auditor is not the designated auditor.

Reporting and Standards Branch

The primary responsibilities of this branch are the audit of the Province's financial statements which appear in Volume 1 of the Public Accounts, the preparation of the Annual Report of the Provincial Auditor to the Legislature, the development and maintenance of the Office's Audit Manual, research and communications, and the conduct of post-audit quality control reviews.

EDP and Resources Branch

This branch's basic responsibilities are EDP audits, including the provision of technical support to other branches, training and professional development.

Special Assignments Branch

This branch accommodates the requests from the Standing Committee on Public Accounts and also audits government-wide issues.

Advisory Committee

In February, 1986, an external Advisory Committee was established to assist the Provincial Auditor in strengthening the function of the Office. The Committee's terms of reference include the following:

- assessment of the Annual Report and other publicly issued reports;

- periodic review of the Office's audit approach;
- analysis of the Office profile; and
- advice relating to sensitive audit issues.

The Committee meets periodically on the call of the Auditor. Since the date of our last report, two meetings have been held.

At the present time, the members of the Advisory Committee are Patrick Reid, Jack Stokes and George Taylor, former members of the Ontario Legislature , Rendall Dick, a former deputy minister and Adam Zimmerman, a senior member of the business community.

Personnel

Office staff at September 30, 1987 were as follows:

Executive and Directors	12
Managers	16
Supervisors	17
Auditors	10
Auditor Trainees	37
Personnel and Administrative	13
Total Staff	105

Auditor trainees are enrolled in various stages of courses leading to professional qualifications through either The Institute of Chartered Accountants of Ontario (CA) or The Society of Management Accountants of Ontario (CMA).

7.10 Staff Training and Professional Development

The Office provides its professionally qualified staff with in-house courses and seminars. Additionally, selected staff attended specialized courses offered outside the Office. The courses and lectures covered such topics as management skills, value for money auditing and statistical sampling.

Most of the training provided for the trainees is carried out during audit assignments. This on-the-job training is supplemented with in-house courses in accounting, auditing and EDP principles and practices.

These training and professional development activities help to ensure that staff maintain the technical competence and management skills necessary to keep abreast of current audit approaches, and to carry out audits more economically and efficiently.

7.11 Office Expenditure

The Estimates, or Budget, for the Office of the Provincial Auditor are voted on annually by the Legislature, following approval by the Board of Internal Economy and acceptance by the Standing Committee on Public Accounts. For the year ended March 31, 1987, Estimates were voted in the amount of $6.4 million, of which $6.1 million was expended. The 1987 audited financial statement for the Office is included as Exhibit 7 to this Report.

In comparison with other provincial legislative audit offices, expenditure for this Office ranks third behind Quebec ($10.9 million) and Alberta ($10.8 million). When audit office expenditure is expressed as a ratio of total provincial expenditure, however, Ontario is the lowest. Currently this Office spends approximately 20¢ for every $1,000 spent by the Province. Other provincial legislative audit offices spend in the range of 38¢ to $1.50 for every $1,000 of corresponding provincial expenditure.

While all provincial legislative audit offices have basically similar mandates, there are differences in the nature and scope of their operations. As a result, comparison of the expenditure of these offices is only one indicator, not the sole measure, of their relative cost effectiveness.

The main component of the Office's expenditure is salaries and benefits. Over the last four years this component has increased at a rate consistent with the increase in total provincial expenditure. However, other Office expenditure (services, equipment, etc.) has risen at a higher rate and reflects the much needed improvements that have been made to Office facilities.

We have recently upgraded our Office accommodations and greatly expanded our use of microcomputers and word processing technology. We now have a working environment comparable to that of most public accounting firms. This environment is very conducive to improved staff productivity and is a major benefit from the standpoint of staff recruitment and retention.

The Office Estimates for 1987-88 project an increase in total funding requirements of 3.8 per cent.

7.12 Canadian Conference of Legislative Auditors

The fifteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Quebec City from July 5 to 8, 1987. This gathering, bringing together legislative auditors from all the provinces in Canada, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- the auditor's report on government financial statements;
- general standards of financial statement presentation for governments;
- responsibilities for fraud detection and investigation;
- legislative auditing of federal provincial programs;
- the expectation gap as it relates to legislative auditors and public accounts committees;
- the effectiveness of public accounts committees; and
- value for money auditing standards.

Auditor's Report for 1987

CHAPTER 8
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

8.1 Appointment and Composition of the Committee

Standing Order 90 of the Legislative Assembly provides for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders of the Legislative Assembly, a Standing Committee on Public Accounts was appointed for the Third Session of the Thirty-Third Parliament on May 4, 1987. Membership on the Committee consisted of five Progressive Conservatives, four Liberals and two New Democrats for a total of 11 members. As has been the case since 1968, the Chairman of the Committee was a member of the Official Opposition Party (Progressive Conservative). The activities of the Committee ended with the dissolution of the Legislature on July 31, 1987.

8.2 Role and Responsibilities of the Committee

Standing Order 90 empowers the Committee to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which are referred to the Committee as they become available.

The Committee also reviews matters referred to it by a resolution of the Assembly.

In essence, the role of the Committee is to hold the Cabinet and government bureaucracy accountable for their administration. This accountability flows to the Committee, to Parliament, and ultimately, to the public at large.

In order to fulfill this role, the Committee examines, assesses and reports to the Legislature on a number of issues, including:

- the reliability and appropriateness of information in the Public Accounts to provide a fair accounting of operations and financial transactions;
- the assessment, collection and proper allocation of revenue;
- the maintenance of expenditure within the limits and for the purposes authorized by the Legislature;
- the adequacy of controls to protect assets from loss, waste and misappropriation;
- the regard for economy in the acquisition of goods and services;
- the regard for efficiency in operations; and
- the effectiveness of programs in meeting their stated objectives.

Provincial Auditor's Role in the Process

The Provincial Auditor assists the Standing Committee on Public Accounts in the fulfillment of its role. Committee members are generally neither professional accountants nor are they overly familiar with the details of management systems and controls. In order for members to make sense of, and to deal constructively and intelligently with the issues previously noted, the Office endeavours to present relevant information to the Committee in a clear and precise manner.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

8.3 Committee Meetings

General

The Committee meets every Thursday morning when the Legislature is in session. For the past several years it has also met during the summer and winter when the Legislature has not been in session. All meetings, with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports, are open to the public.

To set the Committee's agenda, a subcommittee consisting of the Chairman and a member from each party, meets periodically. Most Committee meetings deal with those aspects of the operations of government ministries and Crown agencies related to assessing the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

At meetings dealing with ministry operations, a deputy minister, usually accompanied by senior ministry officials, appears as a witness to answer questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, ministers themselves are very rarely called as witnesses. When the Committee is reviewing Crown agencies, the chief executive officer, and at times the chairman of the board, appear as witnesses. They are usually accompanied by senior agency staff.

Meetings Held

Reference was made in our 1986 Report (section 8.3) to Committee meetings held during the First and Second Session of the Thirty-Third Parliament, up to September 1986.

From October 1986 to September 1987 the Committee held 28 public meetings which included reviews of the following subject matters:

- the Provincial Auditor's Report on the Industrial Accident Prevention Association;
- the Downsview Rehabilitation Centre of the Workers' Compensation Board;
- the Ontario Pavilion Expo 86;
- the activities of Wyda Systems (Canada) Inc.;

- the severance package offered to the former Clerk of the Legislative Assembly;
- status of the sale of the Urban Transportation Development Corporation and the severance package given to its former President;
- Ministry of Housing's Convert-to-Rent Program;
- the 1986-87 Estimates of the Office of the Provincial Auditor; and
- the Provincial Auditor's Reports on the Review of Graham Software and the Review of Courthouses in Ontario.

Motions Passed At Meetings Requiring the Provincial Auditor to Carry Out Special Assignments under Section 17 of the Audit Act

Audit Concerning the Affairs of Avi Dobzinski, Wyda Systems (Canada) Inc., Ivan Fleischmann, Canadian Intercorp, Wilfred Caplan and Damaza Consultants Ltd.

As a result of the Committee's hearings into the allegations of conflict of interest concerning Elinor Caplan, MPP, the Committee remained unsatisfied with the disposition of funds invested in Wyda Systems (Canada) Inc. by the former IDEA Corporation. Therefore, on October 2, 1986 the Committee passed a motion that "a full and complete audit for the period May 2, 1985 to date be undertaken with respect to the financial affairs of Avi Dobzinski, Wyda Systems (Canada) Inc., Ivan Fleischmann, Canadian Intercorp, Wilfred Caplan and Damaza Consultants Ltd. to determine any payments made with respect to the matter under investigation by this Committee."

On October 16, 1986, the motion was amended instructing the Provincial Auditor to undertake a full and complete audit.

The parties involved did not provide the Provincial Auditor with the cooperation required to undertake the full and complete audit. Therefore, on December 11, 1986 the Committee passed another motion directing the Chairman to advise the Legislature that it was not in a position to investigate further this complex matter and to recommend that a judicial inquiry be initiated forthwith into this matter. The Chairman reported the foregoing to the Legislature the same day.

It was also revealed at the December 11, 1986 Committee meeting that the Ontario Provincial Police had commenced a criminal investigation into the financial affairs of Wyda Systems (Canada) Inc. As at the date of this Report, the OPP investigation into the affairs of Wyda Systems was still ongoing.

Review of Termination Settlements

On November 27, 1986, the Committee passed a motion requesting the Provincial Auditor to obtain certain information from the Human Resources Secretariat respecting termination settlements with various individuals.

The information was tabled with the Committee on December 18, 1986.

Review of Graham Software

At the February 12, 1987 meeting the Committee passed a motion requesting the Provincial Auditor to review on its behalf "all financial and related documents in the possession of and at the offices of Terry Graham, Graham Software, and their counsel, as those documents related to the Committee's review of the IDEA/ODC investment in Graham Software, and further, that the Provincial Auditor be requested to select for duplication any documents considered pertinent to the Committee's concerns."

A report on this review was tabled with the Committee on March 23, 1987. A number of meetings were held during March 1987 to review the Report. A summary of this review will likely be included in the Committee's 1987 Report to the Legislature.

Concerns Raised by Peter Whitehouse

On March 27, 1987 the Committee requested the Provincial Auditor to review the correspondence and any further documentation submitted to the Committee by Peter Whitehouse, to identify the issues contained therein, and to report to the Committee on the review with appropriate recommendations for the Committee's consideration.

A report on our review was tabled with the Committee on June 4, 1987.

Status of Previous Motions Involving the Provincial Auditor

Workers' Compensation Board and Safety Associations

As noted in section 8.3 of our 1986 Report, the Provincial Auditor, by way of motion, was requested to conduct a comprehensive audit on the Industrial Accident Prevention Association (IAPA). Our report on the audit was reviewed by the Committee in the fall of 1986. The results of the Committee's examination were included in its most recent Report to the Legislature.

The Committee made a number of recommendations for improvements to the IAPA's financial and administrative operations and implementation of related measures in order to improve health and safety services in Ontario.

Exhibit 9 of this Report refers to the current status of the recommendations.

Court Facilities

Section 8.3 of our 1986 Report referred to a motion passed by the Committee on June 12, 1986 directing the Provincial Auditor to review reports from a special investigation by a CBC Radio reporter respecting the state of the Province's court facilities.

The Provincial Auditor's Report on the Review of Courthouses in Ontario was tabled with the Committee on March 23, 1986 and was reviewed that same week. A summary of this review will likely be included in the Committee's 1987 Report to the Legislature.

8.4 Other Committee Activities

Canadian Council of Public Accounts Committees

The ninth annual meeting of the Council was held in Quebec City, from July 5 to 9, 1987. These annual meetings, normally attended by public accounts committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information.

Specific topics discussed included the operation and effectiveness of committees, the expectations of parliamentarians with respect to comprehensive auditing and the expectation gap as it relates to legislative auditors.

8.5 Reports of the Committee

General

The Committee's Annual Report is normally tabled with the Legislature at the end of the calendar year or shortly afterwards. The Report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of the Committee's comments and recommendations. Occasionally, the Committee also issues interim reports.

The tabling of the Report in the Legislature is usually followed by a scheduled debate. This provides Committee members with the opportunity to once again bring items of concern to the Legislature's attention. Additionally, it gives Cabinet Ministers the opportunity to comment on matters that have been dealt with by the Committee.

1985 and 1986 Report

As indicated in our last year's Report, the Committee prepared a Report covering its 1985 and 1986 activities. The Report was presented to the Legislative Assembly on February 12, 1987, the final day of the Second Session of the Thirty-Third Parliament.

Debate on the Report did not take place during the Third Session of the Thirty-Third Parliament.

Status of Committee Report Recommendations

Exhibit 9 of this Report summarizes and provides the current status of all recommendations in the above Committee Report. It also provides an update on the status of recommendations contained in previous Committee Reports, which were listed as unresolved in Exhibit 9 of our last year's Report.

Review of Graham Software

At the February 12, 1987 meeting the Committee passed a motion requesting the Provincial Auditor to review on its behalf "all financial and related documents in the possession of and at the offices of Terry Graham, Graham Software, and their counsel, as those documents related to the Committee's review of the IDEA/ODC investment in Graham Software, and further, that the Provincial Auditor be requested to select for duplication any documents considered pertinent to the Committee's concerns."

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Status of Previous Motions Involving the Provincial Auditor

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EXHIBITS

1. Province of Ontario, Audited Financial Statements, year ended March 31, 1987.

2. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1987.

Office of the Provincial Auditor:

3. - Organization Chart.

4. - Government-Wide Matters and Special Reviews.

5. - Ministry Audits.

6. - Agency of the Crown and Crown Controlled Corporation Audits, year ended March 31, 1987.

7. - Audited Statement of Expenditure, year ended March 31, 1987.

8. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.

9. Status of Recommendations Contained in the Reports of the Standing Committee on Public Accounts to the Legislative Assembly.

EXHIBIT 1

Province of Ontario
Audited Financial Statements
for the year ended March 31, 1987

Summary of Significant Accounting Policies

The Accounting Basis

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province, under which the financial transactions of government ministries are set out as Consolidated Revenue Fund cash inflows and outflows, best accommodate reporting to the Legislature.

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended. Cash inflows, however, are closed at March 31 for cash received or in transit.

Loans and advances made to Crown corporations, boards and commissions are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of the underlying security has diminished, and when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of $1.

The accounting of the Province's transactions is recorded under three categories:

Budgetary Transactions

Budgetary transactions are the revenue and expenditure activities of the Government.

Revenue

This includes revenue raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and shared-cost programs, and income from investments.

Expenditures

Expenditures on government programs include payments for goods and services, transfer payments to individuals, local governments and institutions, subsidies and grants, salaries, interest on debt issued for provincial purposes and the acquisition and creation of fixed assets. Expenditures on fixed assets are expensed as budgetary items in the year of acquisition since they are not considered to differ from any other service to the public. Discount, premium and commission expenses related to debt issues are treated as current year budgetary transactions.

Exhibit 1

Non-Budgetary Transactions

Non-budgetary transactions are the lending, investment and special account administration activities of the Government, including loans, advances and investments, pension and related benefit funds and special purpose accounts. These transactions affect only asset and liability accounts.

Loans, advances and investments

This category includes Ontario's lending and investment activity in various Crown corporations, agencies and local governments.

Pension and related benefit funds

Pension and related benefit funds consist of all employee and employer contributions and interest earnings of the funds which are mainly for government employees, members of the Legislature, provincial judges, the Superannuation Adjustment Fund, less payments made from these funds.

Special purpose accounts

Special purpose accounts arise from provincial administration of special accounts, generally established by legislation, such as the Motor Vehicle Accident Claims Fund and deposits with the Province of Ontario Savings Office.

Financing Transactions

Financing transactions show the issuance and repayment of securities.

Debt transactions

Provincial purpose transactions are the borrowing and repayment activities for the Province's own purposes.

Financial Assets, Accumulated Deficit and Liabilities

Financial assets

Advances to Ontario Hydro represent the funds advanced to the Corporation and are stated in Canadian dollars using the year-end rate of exchange.

All other financial assets are claims by the Consolidated Revenue Fund on other parties and have been created by cash transactions.

Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and financial assets; it represents the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in the accumulated deficit is the amount by which budgetary revenues are greater or less than budgetary expenditures.

Liabilities

Liabilities are claims by other parties on the Consolidated Revenue Fund.

Debt incurred for provincial purposes comprises debentures, notes and treasury bills which are recorded at the face value of the debt instrument, or in the case of the foreign currency denominated debt, at the Canadian dollar equivalent. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include pension and related benefit funds, deposits with the Province of Ontario Savings Office and other special purpose accounts.

Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown.

Foreign Currency Translation

Proceeds and retirements of loans denominated in foreign currencies are recorded as financing transactions at the Canadian dollar equivalent, using the rate of exchange prevailing on the day of the transaction. Debt payable and contingent liabilities are translated to Canadian dollars at year-end rates of exchange.

In the case of outstanding debt issued on behalf of Ontario Hydro, the offsetting advances to Ontario Hydro are similarly translated at year-end rates of exchange, so there is no exchange gain or loss to be recorded. Exchange gains or losses related to outstanding debt incurred for provincial purposes are recorded as budgetary transactions.

Exhibit 1

Statement of Consolidated Revenue Fund Transactions
for the year ended March 31, 1987
($ millions)

	Original Budget	Actual 1987	Actual 1986
Budgetary Transactions			
Revenue	28,454	29,544	26,240
Expenditure	31,031	32,178	28,854
Budgetary deficit	2,577	2,634	2,614
Non-Budgetary Transactions (net)			
Pension and related benefit funds	773	760	689
Loans, advances and investments	193	313	248
Special purpose accounts	67	213	72
Total non-budgetary contributions	1,033	1,286	1,009
Net Cash Requirements	1,544	1,348	1,605
Financing			
Debt Transactions			
Proceeds of loans net of retirements	1,506	1,194	2,102
(Increase) decrease in cash and temporary investments (note 13)	38	154	8
Total Financing	1,544	1,348	2,110
Net cash requirements after extraordinary adjustments (note 12)	1,544	1,348	2,110

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Budgetary Revenue
for the year ended March 31, 1987
($ millions)

	Original Budget	Actual 1987	Actual 1986
Taxation			
Personal income tax	7,948	8,618	7,249
Retail sales tax	5,451	5,604	5,025
Corporations tax	3,025	3,205	2,575
Gasoline tax	1,017	989	977
Tobacco tax	590	611	603
Land transfer tax	270	353	205
Fuel tax	265	266	242
Mining profits tax	55	121	55
Race tracks tax	67	71	64
Public utilities income tax	45	14	56
Succession duty		5	6
Other	13	6	5
	18,746	19,863	17,062
Other Revenue			
Ontario Health Insurance Plan premiums	1,653	1,669	1,622
Profits from Crown corporations and boards			
Liquor Control Board of Ontario	695	629	638
Ontario Lottery Corporation	346	465	317
Vehicle registration fees	430	438	356
Interest on investments, loans and advances	273	328	455
Liquor Licence Board of Ontario revenues	318	321	275
Other fees and licences	283	257	252
Royalties	170	167	164
Utility service charges	130	120	126
Sales and rentals	100	99	73
Fines and penalties	95	95	87
Other	170	223	131
	4,663	4,811	4,496
Government of Canada			
Established Programs Financing			
Cash Contribution	2,981	2,813	2,752
Extended Health Care Services	409	407	385
Canada Assistance Plan	1,090	1,123	1,045
National Training Agreement	171	157	171
Other	394	370	329
	5,045	4,870	4,682
Total Budgetary Revenue	28,454	29,544	26,240

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Exhibit 1

Statement of Budgetary Expenditure
for the year ended March 31, 1987
($ millions)

Ministry	Original Budget	Actual 1987	Actual 1986
Agriculture and Food	434	465	387
Attorney General	313	327	286
Office Responsible for Women's Issues	10	8	10
Office Responsible for Native Affairs	2	4	1
Citizenship and Culture	227	274	215
Colleges and Universities	2,128	2,254	2,063
Community and Social Services	3,133	3,285	2,872
Consumer and Commercial Relations	107	113	100
Correctional Services	331	330	283
Education	3,585	3,937	3,381
Energy	45	43	83
Environment	345	340	317
Financial Institutions	27	23	25
Government Services	457	461	433
Office Responsible for Disabled Persons	2	5	1
Office Responsible for Senior Citizens Affairs	4	3	2
Health	10,021	10,480	9,251
Housing	350	296	234
Industry, Trade and Technology	167	197	82
Intergovernmental Affairs	6	7	8
Labour	92	97	77
Legislative and Executive Offices	10	9	8
Management Board of Cabinet	26	25	20
Municipal Affairs	875	891	848
Natural Resources	477	529	444
Northern Development and Mines	201	220	175
Revenue	718	703	684
Skills Development	459	405	392
Solicitor General	378	368	340
Tourism and Recreation	158	167	160
Transportation and Communications	1,767	1,768	1,602
Treasury and Economics	619	520	735
Interest on debt issued for provincial purposes	3,575	3,539	3,250
Other	82	85	85
Estimated year-end savings (note 11)	(100)		
Total Budgetary Expenditure (note 10)	31,031	32,178	28,854

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Non-Budgetary Transactions

for the year ended March 31, 1987
($ millions)

	Original Budget	Actual 1987	Actual 1986
Pension and Related Benefit Funds			
DEPOSITS TO:			
Public Service Superannuation Fund	725	714	641
Superannuation Adjustment Fund	320	313	283
Other	23	22	22
	1,068	1,049	946
PAYMENTS FROM:			
Public Service Superannuation Fund	181	181	164
Superannuation Adjustment Fund	104	100	82
Other	10	8	11
	295	289	257
Net Deposits to Pension and Related Benefit Funds	773	760	689
Loans, Advances and Investments			
REPAYMENTS BY:			
Corporations, boards and commissions			
Ontario Mortgage Corporation	177	177	86
Development Corporations	34	64	57
Crop Insurance Commission of Ontario			13
Ontario Education Capital Aid Corporation			79
Ontario Universities Capital Aid Corporation			26
Other	6	8	20
Local governments	90	96	74
Water treatment and waste control facilities	30	52	46
Other loans and investments	10	8	23
	347	405	424
PAYMENTS TO:			
Corporations, boards and commissions			
Development Corporations	106	47	77
Ontario Energy Corporation			16
Other	1	5	13
Local governments	29	23	36
Water treatment and waste control facilities	18	17	34
	154	92	176
Net Repayments of Loans, Advances and Investments	193	313	248

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Exhibit 1

Statement of Non-Budgetary Transactions - Continued
for the year ended March 31, 1987
($ millions)

	Original Budget	Actual 1987	Actual 1986
Special Purpose Accounts			
DEPOSITS TO:			
Province of Ontario Savings Office	38	195	62
Motor Vehicle Accident Claims Fund	11	13	10
Other	30	17	10
	79	225	82
PAYMENTS FROM:			
Motor Vehicle Accident Claims Fund	9	6	6
Other	3	6	4
	12	12	10
Total Deposits to Special Purpose Accounts	67	213	72
Total Non-Budgetary Contribution (net)	1,033	1,286	1,009

Statement of Debt Transactions
for the year ended March 31, 1987
($ millions)

	Original Budget	Actual 1987	Actual 1986
Proceeds of Loans			
Canada Pension Plan Investment Fund	600	232	1,214
Teachers' Superannuation Fund	1,255	1,310	1,235
Total Proceeds of Loans	1,855	1,542	2,449
Retirements of Loans			
Canada Pension Plan Investment Fund	343	333	20
Other debentures and notes	6	15	327
Total Retirements of Loans	349	348	347
Debt Transactions (net)	1,506	1,194	2,102

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Financial Position
as at March 31, 1987
($ millions)

	1987	1986
Financial Assets		
Cash and temporary investments (note 1)	1,978	2,118
Loans to local governments	516	588
Advances to corporations, boards and commissions (note 2)	513	715
Investments in water treatment and waste control facilities (at cost less recoveries) (note 3)	475	510
Other loans (note 4)	92	54
	3,574	3,985
Advances to Ontario Hydro, secured by bonds (note 5)	7,786	8,189
Total financial assets	11,360	12,174
Accumulated Deficit	31,529	28,919
	42,889	41,093
Liabilities		
Debt incurred for provincial purposes (note 6)	27,921	26,695
Pension and related benefit funds (note 7)	6,157	5,397
Deposits with the Province of Ontario Savings Office	912	717
Other special purpose accounts	113	95
Total liabilities for provincial purposes	35,103	32,904
Debt incurred for Ontario Hydro (note 6)	7,786	8,189
	42,889	41,093
Contingent Liabilities (note 8)	17,603	15,963

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1987 financial statements of the Province of Ontario, including the notes and the Summary of Significant Accounting Policies are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 29, 1987.

B.A. SMITH, Deputy Treasurer of Ontario and
Deputy Minister of Economics

A.W. NETHERY, Director, Financial Information and
Accounting Policy Branch

Exhibit 1

Notes to the Financial Statements
(all figures in millions of dollars)

1. Cash and Temporary Investments

Temporary investments are mainly marketable short-term securities issued by Canadian chartered banks, and by provincial and federal governments and are recorded at cost.

2. Advances to Corporations, Boards and Commissions

	1987	1986
Development Corporations	$268	$285
Ontario Mortgage Corporation (note 13)	146	323
Other	99	107
	$513	$715

The Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has advanced funding for the Corporations' lending programs. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to $16 million in 1987 (1986 $15 million). Advances to the Corporations are reduced by their loan forgiveness and write-offs, amounting to $16 million in 1987 (1986 $9 million).

The Ontario Mortgage Corporation advances of $146 million as at March 31, 1987 represent the market value of mortgages held by the Corporation.

3. Investments in Water Treatment and Waste Control Facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering $407 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to $36 million at March 31, 1987 (1986 $45 million), was applied as a reduction of the investment account.

4. Other Loans

Included in other loans are Ministry of Health capital construction loans to public hospitals amounting to $35 million (1986 $42 million) as well as mortgages of $36 million assumed from the Ontario Land Corporation.

5. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1987, the bonds consist of U.S. $5,109 million (1986 U.S. $5,145 million), and Canadian $1,119 million (1986 Canadian $1,000 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at $6,667 million (1986 $7,189 million), the Canadian dollar equivalent using the exchange rate in effect on that date. Transactions during the year are as follows:

	1987	1986
Proceeds of loans	$ 119	$
Retirements of loans	(50)	(175)
Net proceeds/retirements	69	(175)
Foreign exchange - (gain)/loss	(472)	158
Net (decrease) increase in debt incurred for Ontario Hydro purposes	(403)	(17)
Related advances, interest and recoveries		
Advances to Ontario Hydro	119	
Interest	897	916
Recovery of interest and loan retirements	(947)	(1,091)
Net advances	69	(175)
Foreign exchange - (gain)/loss	(472)	158
Net related advances, interest, foreign exchange - (gain)/loss and recoveries	$(403)	$ (17)

Exhibit 1

6. Debt

Debentures, notes and treasury bills for provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of repayment/maturity in the following tables.

For Provincial Purposes

Years of repayment/ maturity March 31	1987	1987 Weighted average interest rate %	1986	1986 Weighted average interest rate %
1987	$		$ 998	
1988	1,427		775	
1989	920		919	
1990	454		453	
1991	486		484	
1992	508			
1- 5 years	3,795	7.72	3,629	8.18
6-10 years	5,047	8.28	4,478	8.02
11-15 years	6,780	10.54	6,646	9.81
16-20 years	10,097	12.22	9,733	12.53
21-25 years	2,093	12.76	2,086	13.21
26-30 years	73	9.97	72	9.92
31-35 years	36	10.24	51	10.18
	$27,921	10.52	$26,695	10.55

Payable to:	1987	1986
Minister of Finance of Canada		
Canada Pension Plan Investment Fund	$14,727	$14,827
Other	351	330
Teachers' Superannuation Fund	10,029	8,719
The Ontario Municipal Employees Retirement Fund	1,293	1,293
Public Investors	1,521	1,526
	$27,921	$26,695

For Ontario Hydro

Years of repayment/ maturity March 31	Canadian	United States	Total	1987 Weighted average interest rate %	1986 Total	1986 Weighted average interest rate %
1988	$	$ 261	$ 261		$ 279	
1989						
1990		261	261		279	
1991		57	57		62	
1992		514	514			
1- 5 years		1,093	1,093	12.56	620	9.88
6-10 years		617	617	12.95	1,171	14.42
11-15 years	1,000	611	1,611	11.80	1,127	9.71
16-20 years	119	1,560	1,679	8.85	1,920	10.76
21-25 years		2,416	2,416	11.07	2,265	9.17
26-30 years		370	370	12.78	1,086	14.78
	$1,119	$6,667	$7,786	11.18	$8,189	11.17

Payable to:	1987	1986
Minister of Finance of Canada Canada Pension Plan Investment Fund	$1,119	$1,000
Public Investors	6,667	7,189
	$7,786	$8,189

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is $472 million (loss of $158 million in 1986).

As explained in Note 5, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

7. Pension and Related Benefit Funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related benefit funds and accounts. The amounts recorded by the Province are the sole assets of these plans.

	1987	1986
Public Service Superannuation Fund	$4,563	$4,030
Superannuation Adjustment Fund	1,514	1,300
Legislative Assembly Retirement Allowances Account	36	32
Provincial Judges Benefits Fund	37	31
Other	7	4
	$6,157	$5,397

Exhibit 1

The latest actuarial report of the Public Service Superannuation Fund as at December 31, 1985, showed a surplus of $109.9 million.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1986 showed a deficit of $1 million. The Province has made this payment as at March 31, 1987.

8. Contingent Liabilities

	1987	1986
Obligations guaranteed by the Province:		
Debentures, bonds and notes		
Ontario Hydro	$16,509	$15,093
Bank loans guaranteed		
Corporations and individuals through various government programs	383	319
Other guarantees		
Corporations	711	551
	$17,603	$15,963

Claims against the Crown:

There are claims outstanding against the Crown of which six are for amounts over $50 million each, arising from legal action either in progress or threatened in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, settlements resulting therefrom will be recorded as budgetary expenditure when paid.

9. Teachers' Superannuation Fund

Through budgetary expenditure, the Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund, which is administered by the Teachers' Superannuation Commission. The Province is also committed to paying any deficiency in the Fund.

The latest actuarial report as at December 31, 1984 showed a surplus of $693 million.

10. Budgetary Expenditure by Classification, Net of Recoveries

	1987	1986*
Salaries and wages	$ 2,580	$ 2,378
Employee benefits	403	386
Transportation and communication	200	214
Services	1,016	790
Supplies and equipment	653	505
Acquisition/construction of physical assets	273	307
Transfer payments	23,362	20,927
Interest on debt issued for provincial purposes	3,539	3,250
Other transactions	152	97
Total budgetary expenditure	$32,178	$28,854

** Before extraordinary adjustments*

11. Budget Figures

The budget figures in the financial statements are from the 1986 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on May 13, 1986.

The Estimated year-end savings figure in the Statement of budgetary expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

12. Comparative Figures

The 1986 comparative figures have been reclassified where necessary to conform with the 1987 financial statement presentation.

a) 1985-86 Extraordinary Adjustments

Before 1985-86, loans and advances made to, and investments made in, Crown corporations, boards and commissions were recorded as financial assets. In some cases, the funds required to repay the advances and loans were effectively provided out of provincial expenditure appropriations. Following an announcement in the October 1985 Budget, certain advances, loans and investments in corporations, boards and commissions were written down or forgiven. The write-offs or loan forgiveness were classified as extraordinary adjustments, since they were not typical of normal government activities and were not considered as recurring factors in any evaluation of ordinary government operations.

In summary, extraordinary adjustments and their impact:

. increased budgetary expenditure	$3,671 million
. increased non-budgetary contribution	$3,166 million
. increased net cash requirements	$505 million

Full details were described in the 1986 Financial Report and the 1986 Public Accounts. For better comparison, the 1987 financial statements are compared to 1986 excluding the extraordinary adjustments.

b) Interprovincial lotteries

Prior to April 1, 1986, interprovincial lottery profits were paid into a non-budgetary special purpose account from which authorized payments were made. This account had a balance of $330 million at March 31, 1986.

Beginning in 1986-87, interprovincial lottery profits are reported as budgetary revenue. The 1986 results have been restated on a comparative basis:

. budgetary revenue increased by	$181 million
. budgetary expenditure increased by	$65 million
. budgetary deficit decreased by	$116 million
. special purpose accounts decreased by	$330 million
. March 31, 1986 accumulated deficit decreased by	$330 million

Exhibit 1

13. Ontario Land Corporation

As at March 31, 1987, the Ontario Land Corporation (OLC) was dissolved and its assets taken over by the Ontario Mortgage Corporation and the Province. The Province assumed a liability of $32 million in debentures due to Canada Mortgage and Housing Corporation together with a debt retirement fund of $35 million established by OLC. This retirement fund consisted of cash and marketable securities of $15 million and $20 million of mortgages. In addition, the Province assumed a further $16 million in mortgage assets, together with a net amount due to the Province from OLC on liquidation of $5 million. Since the Province merely assumed existing assets and liabilities, those transactions were effected directly to the Statement of financial position:

. debt increased by	$32 million
. cash and temporary investments increased by	$15 million
. other loans increased by	$41 million
. accumulated deficit decreased by	$24 million

Provincial Auditor's Opinion

I have examined the statement of financial position of the Province of Ontario as at March 31, 1987 and the statements of consolidated revenue fund transactions, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, after giving retroactive effect to the change in accounting for interprovincial lottery profits as explained in note 12(b) to the financial statements, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph indicate that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than $60 million.

In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly. A more complete explanation of the Provincial Auditor's opinion will be included in this report.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, Ontario.
July 29, 1987.

EXHIBIT 2

Management Board Orders
Amounts Authorized and Expended Thereunder
Year Ended March 31, 1987

Ministry	Date of Order	Authorized	Expended
		$	$
Agriculture and Food	Feb. 24, 1987	6,511,600	5,405,107
	Mar. 31, 1987	3,300,600	2,393,994
		9,812,200	7,799,101
Attorney General	Mar. 24, 1987	10,874,000	10,729,733
	Apr. 14, 1987	7,814,000	7,697,069
		18,688,000	18,426,802
Citizenship and Culture	Nov. 18, 1986	162,400	160,567
	Jan. 13, 1987	239,500	238,432
	Feb. 24, 1987	158,600	155,184
	Mar. 3, 1987	793,400	697,602
	Mar. 10, 1987	249,600	244,788
	Mar. 24, 1987	2,416,900	2,146,006
	Apr. 7, 1987	4,166,500	4,104,028
	Apr. 14, 1987	9,951,500	9,804,340
		18,138,400	17,550,947
Colleges and Universities	Jan. 13, 1987	579,400	543,747
	Mar. 10, 1987	609,500	82,150
	Mar. 24, 1987	4,422,600	4,422,600
	Apr. 7, 1987	29,500,000	28,910,885
		35,111,500	33,959,382
Community and Social Services	Mar. 10, 1987	130,181,900	127,176,516
	Apr. 7, 1987	3,700,000	3,680,723
		133,881,900	130,857,239
Consumer and Commercial Relations	Feb. 10, 1987	434,100	339,451
	Mar. 24, 1987	6,974,000	6,643,886
		7,408,100	6,983,337

Exhibit 2

Ministry	Date of Order	Authorized	Expended
		$	$
Correctional Services	Mar. 10, 1987	17,444,200	17,158,887
		17,444,200	17,158,887
Office Responsible for Disabled Persons	Dec. 16, 1986	741,500	739,500
	Jan. 13, 1987	2,100,000	2,100,000
	Apr. 14, 1987	266,400	165,200
		3,107,900	3,004,700
Education	Jan. 27, 1987	440,700	398,282
	Mar. 3, 1987	581,600	496,400
	Mar. 10, 1987	170,011,100	169,575,397
	Mar. 24, 1987	3,066,700	2,441,183
	Mar. 31, 1987	4,550,000	3,879,183
	Apr. 14, 1987	222,100	111,331
		178,872,200	176,901,776
Energy	Feb. 24, 1987	500,000	427,003
	Mar. 24, 1987	549,500	447,791
	Apr. 7, 1987	3,560,000	3,448,801
		4,609,500	4,323,595
Environment	Mar. 24, 1987	14,236,600	14,167,017
	Apr. 14, 1987	507,900	501,059
		14,744,500	14,668,076
Financial Institutions	Mar. 24, 1987	1,383,400	1,342,883
		1,383,400	1,342,883
Government Services	Mar. 31, 1987	16,925,500	16,356,186
		16,925,500	16,356,186

Ministry	Date of Order	Authorized	Expended
		$	$
Health	Mar. 3, 1987	405,100	405,100
	Mar. 10, 1987	3,109,400	3,109,400
	Mar. 24, 1987	60,836,300	60,836,244
	Mar. 31, 1987	69,266,900	66,381,263
	Apr. 7, 1987	26,872,900	26,856,627
	Apr. 14, 1987	163,212,500	162,529,654
	Apr. 28, 1987	3,735,000	3,469,261
		327,438,100	323,587,549
Housing	Apr. 14, 1987	1,961,800	1,500,539
		1,961,800	1,500,539
Industry, Trade and Technology	Apr. 7, 1987	1,909,100	1,471,787
		1,909,100	1,471,787
Intergovernmental Affairs	Jan. 13, 1987	236,100	199,201
	Jan. 27, 1987	368,500	368,500
	Mar. 10, 1987	621,200	570,582
	Apr. 7, 1987	20,000	1,505
		1,245,800	1,139,788
Labour	Feb. 3, 1987	295,100	295,100
	Apr. 7, 1987	8,693,100	7,879,949
		8,988,200	8,175,049
Management Board of Cabinet	Oct. 28, 1986	449,500	449,500
	Feb. 24, 1987	477,000	476,502
	Mar. 31, 1987	3,006,200	2,729,141
	Apr. 14, 1987	232,000	209,600
		4,164,700	3,864,743

Exhibit 2

Ministry	Date of Order	Authorized	Expended
		$	$
Municipal Affairs	Mar. 10, 1987	644,900	607,035
	Apr. 14, 1987	764,700	262,511
		1,409,600	869,546
Natural Resources	Oct. 7, 1986	1,000,000	1,000,000
	Nov. 18, 1986	1,900,000	1,727,028
	Mar. 3, 1987	202,900	202,900
	Mar. 24, 1987	22,874,500	21,838,651
	Apr. 14, 1987	100,000	48,507
		26,077,400	24,817,086
Northern Development and Mines	Jan. 27, 1987	2,451,900	2,411,660
	Mar. 24, 1987	651,700	651,675
	Mar. 31, 1987	3,521,600	3,508,900
	Apr. 14, 1987	907,300	878,679
		7,532,500	7,450,914
Office of the Premier	Apr. 14, 1987	35,000	8,581
		35,000	8,581
Revenue	Mar. 3, 1987	10,753,600	9,529,031
		10,753,600	9,529,031
Solicitor General	Mar. 10, 1987	19,447,800	16,807,391
		19,447,800	16,807,391
Tourism and Recreation	Dec. 16, 1986	1,625,000	1,314,196
	Feb. 24, 1987	2,933,400	2,933,400
	Mar. 24, 1987	2,250,500	2,237,349
	Apr. 14, 1987	2,390,000	2,321,890
		9,198,900	8,806,835

Ministry	Date of Order	Authorized	Expended
		$	$
Transportation and Communications	Oct. 7, 1986	1,527,000	1,527,000
	Nov. 18, 1986	550,000	550,000
	Feb. 24, 1987	240,400	240,400
	Mar. 10, 1987	18,144,800	15,958,906
	Mar. 24, 1987	1,565,000	1,377,834
	Apr. 7, 1987	8,000,000	8,000,000
	Apr. 14, 1987	9,569,100	9,107,145
		39,596,300	36,761,285
Treasury and Economics	Mar. 10, 1987	1,516,000	1,109,091
		1,516,000	1,109,091
Total Management Board Orders		921,402,100	895,232,126

EXHIBIT 3

Office of the Provincial Auditor
Organization Chart

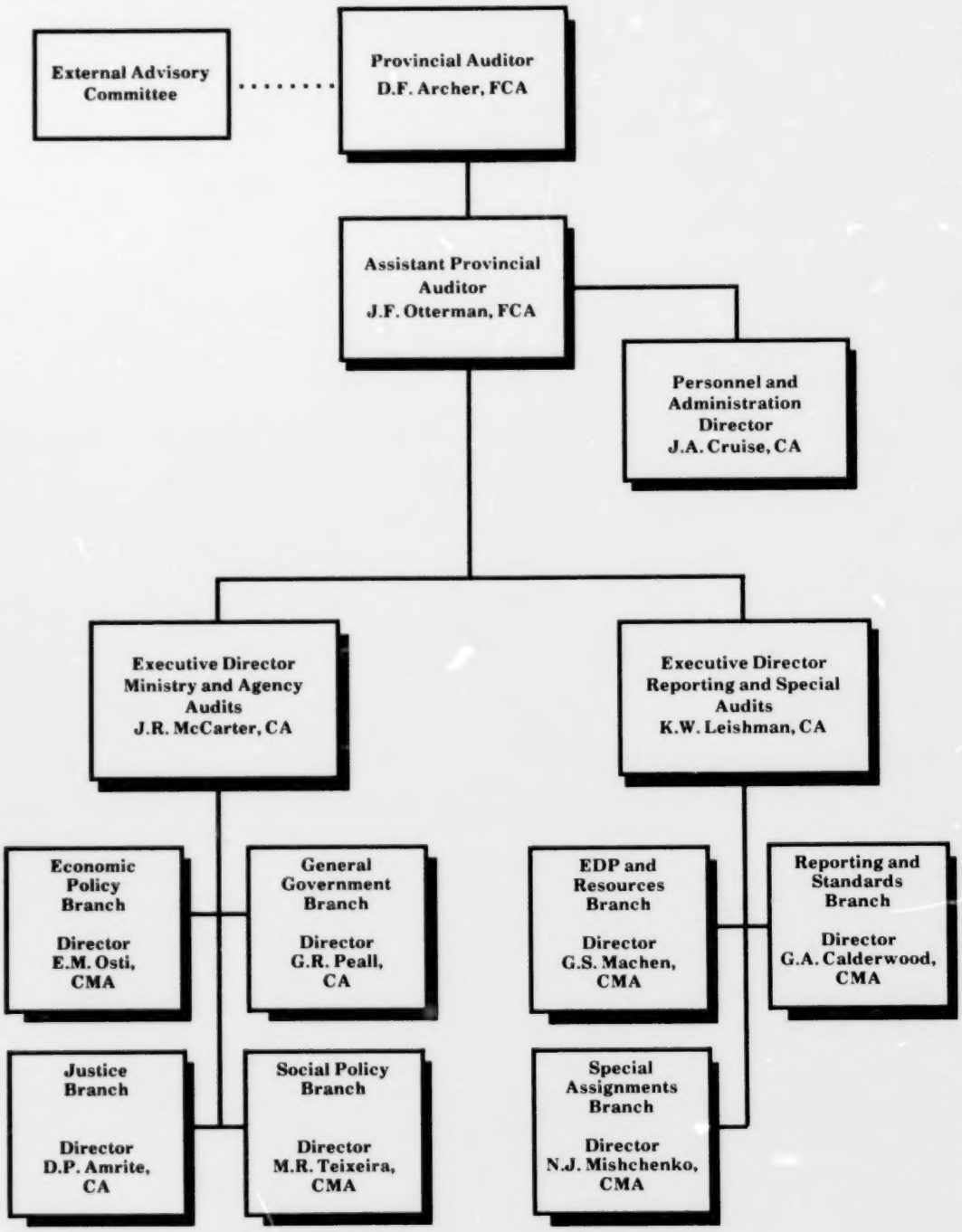
External Advisory Committee
Provincial Auditor D.F. Archer, FCA
Assistant Provincial Auditor J.F. Otterman, FCA
Personnel and Administration Director J.A. Cruise, CA
Executive Director Ministry and Agency Audits J.R. McCarter, CA
Executive Director Reporting and Special Audits K.W. Leishman, CA
Economic Policy Branch Director E.M. Osti, CMA
General Government Branch Director G.R. Peall, CA
EDP and Resources Branch Director G.S. Machen, CMA
Reporting and Standards Branch Director G.A. Calderwood, CMA
Justice Branch Director D.P. Amrite, CA
Social Policy Branch Director M.R. Teixeira, CMA
Special Assignments Branch Director N.J. Mishchenko, CMA

EXHIBIT 4

Government-Wide Matters and Special Reviews

Government-Wide Matters

* . Government Payment System for Goods and Services

* . Ministry Internal Audit Operations

* . Use of Chartered and Government Passenger Aircraft

Reviews for the Standing Committee on Public Accounts

. Concerns Raised by the President of Ventura Technologies Corporation

. Courthouses in Ontario

. Graham Software

. Termination Settlements

For further information on Special Reviews please refer to section 8.3 of this Report.

* These matters appear in Chapter 3 of this Report.

EXHIBIT 5

Ministry Audits

Agriculture and Food

* . Ontario Family Farm Interest Rate Reduction Program

Attorney General

* . Driver Improvement Program

Colleges and Universities

* . Ontario Student Assistance Program

Correctional Services

* . Institutional Services Activity

. Unclassified Payroll System

Education

* . Blind, Deaf and Demonstration Schools Activity

Environment

* . Environmental Control Program

Government Services

. MVS/XA Operating System at Kingston Regional Computer Centre, EDP audit

Health

* . Ontario Health Insurance Plan, EDP audit

* . Mental Health Division

Northern Development and Mines

* . Mines and Minerals Program

. Northern Development Program

Skills Development

* . Youth Opportunities Activity

Solicitor General

* . Office of the Chief Coroner

. Office of the Fire Marshal

* . OPP Telecommunications Project

. Unclassified Payroll System

Transportation and Communications

* . Capital and Construction Activity

* . Ontario Pavilion Expo 86 Project

Treasury and Economics

* . Personal Income Tax Revenue

* These matters appear in Chapter 4 of this Report.

EXHIBIT 6

Agency of the Crown and Crown Controlled Corporation Audits
year ended March 31, 1987
(See Notes)

AGENCIES OF THE CROWN

(i) Whose accounts the Provincial Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body.

(4) IDEA Biological and Medical Technology Fund Inc. (dissolved March 31, 1987)
(4) IDEA Chemical and Process Technology Fund Inc. (dissolved March 31, 1987)
(4) IDEA Information Technology Fund Inc.
(4) IDEA Innovation Fund Inc.
(4) IDEA Machine and Automation Technology Fund Inc. (dissolved March 31, 1987)
(4) IDEA Microelectronics Technology Fund Inc. (dissolved March 31, 1987)
(4) IDEA Research Investment Fund Inc.
(4) Liquor Licence Board of Ontario
Ontario Industrial Training Institute
(6) Ontario Land Corporation (ceased active operations March 31, 1987)
(2) Ontario Mortgage Corporation
Ontario Pavilion Expo '86
Owen Sound Transportation Company Limited, The (December 31)
Soldiers' Aid Commission
Star Transfer Limited (December 31)

(ii) Whose accounts are audited by the Provincial Auditor pursuant to appointment under any Act or by the Lieutenant Governor in Council.

(6) Accountant of the Supreme Court of Ontario, The
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
(6) Algonquin Forestry Authority
Centennial Centre of Science and Technology, The
Commission on Election Finances
(6) Crop Insurance Commission of Ontario, The
(6) Eastern Ontario Development Corporation
Egg Fund Board (December 27)
Environmental Compensation Corporation
(6) Farm Income Stabilization Commission of Ontario
Fund for Milk and Cream Producers, The, - The Milk Commission of Ontario
Grain Financial Protection Board
(6) IDEA Corporation (Terminated June 30, 1986)
(3) Innovation Ontario Corporation
(2) John Graves Simcoe Memorial Foundation, The
Law Society of Upper Canada, Legal Aid Fund, The
(6) Liquor Control Board of Ontario
Live Stock Financial Protection Board, The
McMichael Canadian Collection, The
(6) Niagara Parks Commission, The (October 31)
(6) Northern Ontario Development Corporation

Exhibit 6

(2) North Pickering Development Corporation
Office of the Assembly
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
Ontario Cancer Treatment and Research Foundation, The
(2) Ontario Deposit Insurance Corporation (December 31)
(6) Ontario Development Corporation
Ontario Educational Communications Authority, The
Ontario Film Development Corporation, The
Ontario Food Terminal Board
Ontario Heritage Foundation, The
(6) Ontario Housing Corporation (December 31)
(6) Ontario International Corporation
(6) Ontario Junior Farmer Establishment Loan Corporation, The
(6) Ontario Lottery Corporation
(6) Ontario Municipal Improvement Corporation, The
(6) Ontario Northland Transportation Commission (December 31)
(6) Ontario Place Corporation
Ontario Racing Commission
Ontario Stock Yards Board (June 30)
Ontario Telephone Development Corporation, The
(6) Ontario Waste Management Corporation
Pension Commission of Ontario
Processing-Vegetable Financial Protection Board
Province of Ontario Council for the Arts
(6) Provincial Judges Benefits Fund
Public Complaints Commissioner
(6) Public Service Superannuation Fund
(6) Public Trustee of the Province of Ontario, The
(3) Rent Review Hearings Board
Residential Tenancy Commission
St. Clair Parkway Commission, The (December 31)
St. Lawrence Parks Commission, The
(6) Superannuation Adjustment Fund
(3) Tobacco Producers' Assistance Fund

(iii) Whose accounts are audited by an auditor other than the Provincial Auditor, appointed by the Lieutenant Governor in Council. These audits are performed under the direction of the Provincial Auditor pursuant to section 9(2) of the Audit Act.

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
Ontario Cancer Institute, The
Ontario Mental Health Foundation
(6) Teachers' Superannuation Fund (December 31)
(6) Workers' Compensation Board (December 31)

(iv) The audit of whose accounts the Provincial Auditor is required to direct or review, or in respect of which the auditor's report and working papers used in the preparation of the auditor's statement are required to be made available to the Provincial Auditor under the agency's governing Act.

(6) Toronto Area Transit Operating Authority

CROWN CONTROLLED CORPORATIONS, *whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.*

Board of Funeral Services (October 31)
Board of Governors of The Ontario Institute for Studies in Education, The (April 30)
Board of Ophthalmic Dispensers (December 31)
Board of Radiological Technicians (December 31)
Corporation of the Improvement District of Cameron (December 31)
Corporation of the Improvement District of Dubreuilville (December 31)
Corporation of the Improvement District of Gauthier (December 31)
Corporation of the Improvement District of Kingsford (December 31)
Corporation of the Improvement District of Matachewan (December 31)
Corporation of the Improvement District of Shedden (December 31)
(5) Corporation of the Improvement District of Sioux Narrows (December 31)
Governing Board of Dental Technicians (December 31)
Governing Board of Denture Therapists
Metropolitan Toronto Convention Centre Corporation
(5) Minaki Development Company Limited
(5) Minaki Lodge Resort Limited
Moosonee Development Area Board (December 31)
Ontario Board of Examiners in Psychology (May 31)
(6) Ontario Centre for Advanced Manufacturing
(6) Ontario Centre for Automotive Parts Technology
(6) Ontario Centre for Farm Machinery and Food Processing Technology
(6) Ontario Centre for Microelectronics
(6) Ontario Centre for Resource Machinery Technology
Ontario Cream Producers' Marketing Board (September 30)
(6) Ontario Energy Corporation (December 31)
Ontario Historical Studies Series
(6) Ontario Hydro (December 31)
Ontario Milk Marketing Board, The (October 31)
Ontario Municipal Employees Retirement Board (December 31)
Ontario Research Foundation (December 31)
Ontario Share and Deposit Insurance Corporation (December 31)
(2) Ontario Transportation Development Corporation, The (December 31)
Ontario Trillium Foundation
(2) Ontario Van Pool Organization Limited (December 31)
Royal Ontario Museum, The (June 30)
Science North
(6) Stadium Corporation of Ontario Limited (December 31)
Thunder Bay Ski Jumps Limited
(6) Urban Transportation Development Corporation Limited (December 31)

Exhibit 6

NOTES: (1) In all cases the audits cover the fiscal period of the agency or corporation. In most cases, the fiscal period ended on March 31, 1987. Where the fiscal period ended on a date other than March 31, such date has been indicated in parentheses.

(2) Inactive during the fiscal year.

(3) Newly established this fiscal year.

(4) Provincial Auditor appointed auditor during the fiscal year ended March 31, 1987.

(5) No longer a Crown controlled corporation as at March 31, 1987.

(6) Audited financial statements reproduced in 1986-87 Public Accounts, the majority appearing in Volume 2.

EXHIBIT 7

Office of the Provincial Auditor, Province of Ontario
Statement of Expenditure
year ended March 31, 1987

	1987		1986	
	Actual	Estimates	Actual	Estimates
	$	$	$	$
Salaries and wages	4,138,005	4,309,000	3,619,889	3,807,600
Employee benefits	522,643	620,000	523,013	598,100
Transportation and communication	199,736	204,000	159,033	190,000
Services	536,148	567,000	212,223	161,000
Supplies and equipment	615,051	621,000	228,890	147,000
Transfer payment - Canadian Comprehensive Auditing Foundation	42,400	42,400	40,425	40,400
	6,053,983	6,363,400	4,783,473	4,944,100
Provincial Auditor's salary	90,711	89,700	85,170	82,200
	6,144,694	6,453,100	4,868,643	5,026,300

Notes:

1. Accounting Policy

The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

2. Estimates

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1987. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1987 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario
July 13, 1987

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

EXHIBIT 8

Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports
(See Note)

Report	Section	Description/Status
		RESOLVED AS AT DATE OF PREPARATION OF 1987 AUDITOR'S REPORT
		GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS
1986	3.3	Improvements needed, Integrated Payroll, Personnel and Employee Benefits System. - Substantially implemented.
1986	3.4	Observations regarding land management. - Substantially implemented.
1986	3.5	Poor controls over movable assets. - Substantially implemented.
1986	3.7	Inspection audit, Georgian College of Applied Arts and Technology. - The College reported to the Ministry on actions taken to address the identified deficiencies.
		MINISTRIES
		General
1984	3.4	Review of contracts initiated by Minister of the Crown. - Substantially implemented with the issue of the new Management Board of Cabinet Directives.
		Ministry of Agriculture and Food
1986	4.2	Improvements needed in drainage project procedures. - Partially implemented - any significant matters in this area will be commented on in our future annual reports to the Legislature.
		Ministry of Colleges and Universities
1985	3.7	Inspection audit at Centennial College of Applied Arts and Technology. - The College reported to the Ministry on actions taken to address the identified deficiencies.
		Ministry of Correctional Services
1984	3.11	Improvements needed re Probation and Parole Services. - Substantially implemented.

Auditor's Report for 1987

Report	Section	Description/Status
		Ministry of Education
1985	3.8	Deficiencies in inspection procedures re private schools offering credit courses. - In process of implementation.
1985	3.9	Weaknesses in procedures relating to curriculum matters. - In process of implementation.
		Ministry of the Environment
1984	3.12	Lack of compliance and other matters related to economy. - Implemented.
		Ministry of Municipal Affairs and Housing
1984	3.17	Non-compliance noted re Ontario Youth Employment Program. - Substantially implemented.
		Ministry of Revenue
1986	4.10	Economies warranted re staffing and technology utilization, Guaranteed Income and Tax Credit Branch. - Partially implemented - any significant matters in this area will be commented on in our future annual reports to the Legislature.
1986	4.11	Need for increased resources and efficiencies, Corporations Tax Branch. - Partially implemented - any significant matters in this area will be commented on in our future annual reports to the Legislature.
		Ministry of the Solicitor General
1985	3.17	Further economies warranted re Ontario Provincial Police operations. - Substantially implemented.
		Ministry of Tourism and Recreation
1983	3.19	Observations re Agency of Record and Government advertising expenditures. - Substantially implemented.
		Ministry of Transportation and Communications
1986	4.13	Cost overruns in Municipal Transit Program. - Substantially implemented.
		CROWN AGENCIES
		The Development Corporations
1986	5.2	Deficient loan procedures. - In process of implementation.

Exhibit 8

Report	Section	Description/Status
		Liquor Control Board of Ontario
1986	5.4	High workers' compensation claims and cash management observations. - In process of implementation.
		Office of the Assembly
1986	5.5	Weak management of information systems. - In process of implementation.
		The Ontario Cancer Treatment and Research Foundation
1986	5.6	Inadequate control over patient billings and other matters. - In process of implementation.
		The Ontario Heritage Foundation
1986	5.7	Continuing accounting weaknesses. - In process of implementation.
		Ontario Northland Transportation Commission
1986	5.8	Excess payments into pension fund. - Not implemented. The Corporation disagreed with our comments, as indicated in the response included in our 1986 report. However, it is anticipated that, as a result of a forthcoming evaluation, special payments will be discontinued.
		Ontario Waste Management Corporation
1986	5.9	Observations re salary administration. - Not implemented. The Corporation feels its actions are fully justified. For further details see the Corporation's response in our 1986 report.
		***IN PROCESS OF REVIEW OR TO BE VERIFIED IN FUTURE AUDITS**
		Ministry of the Attorney General
1985	3.4	Improvements required over management and financial controls, County and District Courts Activity.
		Ministry of Citizenship and Culture
1985	3.5	Excess funding for construction of the Sudbury Science Centre.
		Ministry of Colleges and Universities
1984	3.6	Potential for improved delivery of Apprentice Training Program.
		Ministry of Community and Social Services
1986	4.3	Inadequate inspection procedures, Homes for the Aged.

Report	Section	Description/Status
		Ministry of Consumer and Commercial Relations
1986	4.4	Improvements needed in controls over lottery licences.
		Ministry of Education
1983	3.7	Deficiencies in accountability process re General Legislative Grants.
		Ministry of the Environment
1983	3.8	Operating and other deficiencies, Environmental Control Program.
		Ministry of Financial Institutions
1986	4.5	Compliance with legislation not monitored, credit unions.
		Ministry of Government Services
1985	3.12	More economical and efficient use of accommodation warranted.
		Ministry of Health
1984	3.14	Excessive costs incurred re payments under Ontario Drug Benefit Plan.
1984	3.15	Potential for increased revenue and recoveries, Ontario Health Insurance Plan.
1985	3.13	Observations re inspections of nursing homes.
1986	4.6	Inequitable funding arrangements and weak monitoring of public health programs.
		Ministry of Labour
1986	4.7	Improvements in operational efficiency required in Human Rights Commission Program.
1986	4.8	Operational improvements warranted, Occupational Health and Safety Program.
		Ministry of Tourism and Recreation
1986	4.12	Weak monitoring of projects funded.

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which where:

(a) considered unresolved per Exhibit 8 of the 1986 Auditor's Report.

(b) contained in the body of the 1986 Auditor's Report.

* As the Office conducts ministry audits on a cyclical basis, the status of the recommendations will not be determined until a future audit is scheduled for the area involved.

EXHIBIT 9

Status of Recommendations Contained in the Reports of The Standing Committee on Public Accounts to the Legislative Assembly
(See Note)

Date of Report	Recommendation/Status
March 5, 1985	**Accountability of Crown Agencies.** The Committee recommended that the Legislative Assembly examine the Provincial Auditor's concerns relating to the accountability of Crown agencies in a forum of its choosing. *Status:* The recommendation of the Committee has not as yet been addressed in a legislative forum. This matter will be pursued further with the Standing Committee on Government Agencies constituted under the new Parliament.
December 1985 (Interim) February 12, 1987 (Final)	***Financing Arrangements for the Construction of a Domed Stadium.** The Committee reaffirmed its support for the construction of a domed stadium in Metropolitan Toronto and recommended that: (a) the Stadium Corporation of Ontario Ltd. provide information on: (i) the market value of advertising benefits that members of the private sector consortium will receive in return for their investments; and (ii) the new or amended financing arrangements for the stadium once such arrangements have been finalized and to continue to report any new or amended financing arrangements; and (b) the Carling O'Keefe Breweries Ltd. and Molson Ontario Breweries Ltd. be accommodated as participants in the financing arrangements for the stadium and that the Committee be advised of the nature of that accommodation; and (c) the Stadium Corporation continue to seek additional private funding. *Status:* The President of the Corporation recently advised generally: "... we went over all of these questions in some detail with your Committee and filed with them whatever supportive documentation asked for to answer these various questions...."

Date of Report	Recommendation/Status
	and more specifically:
	"In addition to the seventeen-named Consortium members, we have now secured commitments from Labatt's, Carling O'Keefe and Molson's, who will be contributing to the project on an non-equity basis. . .
	"Negotiations are continuing with five additional potential Consortium participants, and I would anticipate that commitments will be secured from three of these corporations, thus bringing the final number of Consortium participants to twenty - I would anticipate that this would then be closed off by September 30th. There could also possibly be one additional Consortium member in the future, once negotiations have been completed with the manufacturer of our scoreboard . . ."
September 19, 1986 (Interim) February 12, 1987 (Final)	The Committee made 13 recommendations with respect to the issue of conflict of interest, including recommendations that the 1985 guidelines on the matter be studied by a special committee of the Legislature and that the guidelines be embodied in legislation.
	Status:
	On June 29, 1987 the Government moved third and final reading of Bill 23, an Act to provide for greater Certainty in the Reconciliation of the Personal Interests of Members of the Assembly and the Executive Council with their Duties of Office. However, an Opposition amendment of the motion for third reading was approved, and the Bill was referred back to the Standing Committee on the Legislative Assembly. Subsequently, with the calling of a Provincial election for September 10, 1987, the Legislature was dissolved and no further action could be taken on the Bill. It is at the discretion of the new Legislature whether or not to introduce new conflict of interest legislation.
February 12, 1987	***Ministry of Agriculture and Food**
	While the Committee has no objections to the practice of hiring outside consultants to perform studies and other necessary services, the Committee recommends that the Ministry of Agriculture and Food ensure that all applicable guidelines relating to the procurement of external consulting services be fully and consistently followed.
	Status:
	On September 18, 1987 the Deputy Minister advised as follows:
	". . . the Ministry of Agriculture and Food has significantly improved controls over the use of external consulting services. We developed a manager's guide for the purchase and management of external consulting services. . . .

Exhibit 9

Date of Report	Recommendation/Status
	"... I believe we have a good balance of delegation and control and expect managers to continue to adhere to all of the policies relating to consulting services."
February 12, 1987	**Ministry of the Attorney General** 1. The Committee recommends that the Ministry of the Attorney General make better use of existing courtroom facilities by scheduling more trials for the summer months of July and August and that consideration be given to increasing courtroom use during evening hours. 2. The Committee acknowledges that efforts to address legal jurisdictional problems are underway and recommends that there be attempts to have cases heard in locations which are convenient for the accused and other parties involved. The Committee further recommends that remote northern communities in particular be better served by the relocation of smaller courts to these areas. 3. The Committee recommends that the Ministry undertake a comparative study of court scheduling and procedures in other jurisdictions, particularly in the United States, to determine how its own system might be improved. The Committee accepts the Ministry's undertaking to provide the Committee with such information once it becomes available. 4. The Committee recommends that the Ministry address the problem of an insufficient number of justices of the peace by seeking to have more of these order-in-council appointments filled. *Status:* The Deputy Attorney General reported on June 26, 1987 as follows: "As the Committee is undoubtedly aware, about one year ago the Government established the Ontario Courts Inquiry. It asked Mr. Justice T. Zuber to review Ontario's court system and recommend reforms to make the court system more effective, accessible and responsive to the public. "... Since the report of this Inquiry will be completed in early July 1987, it would appear prudent that the Ministry not commence implementation of the Standing Committee's recommendations separate from its response to Mr. Justice Zuber's recommendations." The Deputy Attorney General also indicated, with respect to recommendation 4: "I am pleased to advise that, as part of the Ministry's preparation for the implementation of the changes arising out of the revised Justices of the Peace Act, an analysis is being conducted of the

Date of Report	Recommendation/Status
	Justices of the Peace workload throughout the province. On completion of this analysis and approval of the necessary resources by Management Board, I am confident that we will have an adequate number of Justices of the Peace to cope with the workload throughout the province."
February 12, 1987	***Ministry of Government Services** 1. The Committee recognizes that existing procedures set out in the Ontario Manual of Administration do not enable the Ministry of Government Services to exercise enough direct control over use of space and declaration of surplus space by client ministries. The Committee therefore recommends that the Ministry and Management Board review and seek to amend the Manual to clarify and strengthen the Ministry's control over use of government space. 2. The Committee recommends that Management Board enforce more conscientiously the requirement in the Ontario Manual of Administration that ministries file annual reports attesting to the use of all space allocated to them. 3. The Committee recommends that accountability for the decisions of all ministries on how their premises are furnished and control over movable assets be strengthened. *Status:* In a letter dated June 1, 1987 the Secretary of the Management Board of Cabinet advised: 1.2. "The Management Board Secretariat and the Ministry of Government Services have undertaken a joint project to review the management of accommodation across the government. One important objective of this study is to ensure that space is used effectively, efficiently and economically. The recommendations forthcoming from the joint project address the objective of efficient and economical use of space and will provide for the meaningful measurement, reporting and auditing of space utilization. "The Management Board will shortly review the results of the joint project and the Directives dealing with real property and accommodation will be revised in accordance with the Board's decision on this matter." 3. "On February 17, 1987 Management Board approved a revised Ministry of Government Services (MGS) Directive on the acquisition of office furniture and furnishings. The Directive requires that ministries adhere to the dollar limits set for executive furniture and furnishings as listed in the Ministry of Government Services catalogue. "Virtually all items of office furniture and furnishings are covered by standing agreements. They must be purchased against those standing agreements or exemption from MGS is required. . . ."

Exhibit 9

Date of Report	Recommendation/Status
February 12, 1987	***Ministry of Health** 1. The Committee supports the Auditor's recommendation that the Ministry ensure that nursing homes inform residents of costs for uninsured services and receive written authorization from residents before making such charges. 2. The Committee also concurs with the Auditor's suggestion that nursing homes be required to justify to the Ministry the fairness of and need for extra charges. 3. The Committee recommends that consideration be given to having public extended care services subject to the same inspection system as nursing homes are under the Ministry of Health. Consideration might also be given to combining nursing homes and homes for the aged under one ministry for more consistent application of standards and possible cost effectiveness. *Status:* On July 2, 1987 the Deputy Minister of Health advised as follows: 1. "Ministry of Health Auditors conduct audits in Nursing Homes licensed by the Ministry of Health on a random basis and when requested by the Nursing Homes Branch. "The Nursing Homes Branch responds to all the recommendations made by the Audit Branch and requires the Homes to take corrective action with respect of any improper practices identified in the audit." 2. "An amendment to the Nursing Homes Act, found in Bill 176 which became law May 27, 1987, deals with the issue of charging for uninsured services. No licensee shall demand or accept payment for uninsured services in excess of the amount prescribed in regulation or in . . . a written agreement between the resident and the licensee. "A quarterly statement of all charges to the resident for uninsured services must be issued to each resident by the licensee." 3. "The issue of a comparable system of inspection for both nursing homes and homes for the aged is being addressed by the Honourable Ron G. Van Horne, M.P.P., Minister Without Portfolio for Senior Citizen's Affairs. Mr. Van Horne's Office is developing an Extended Care Act which will apply to extended care regardless of setting and cover the issue of inspection."

Date of Report	Recommendation/Status
February 12, 1987	***Office of the Assembly** 1. The Committee agrees with the Chief Election Officer's suggestion that the **Election Act** should not require that notice of enumeration be mailed to each elector in order that more cost effective methods of giving notice could be implemented. The Committee therefore recommends that the **Election Act** be amended to allow greater flexibility in the method of giving notice, provided that the exclusive jurisdiction granted to the Canada Post Corporation is not contravened. 2. Although the Committee favours the continued use of Notice of Enumeration cards, methods to reduce the considerable costs of producing and providing these cards to voters should be investigated further. *Status:* The Chief Election Officer in his letter of September 23, 1987 advised: 1. "I have advised the Cabinet Office that we have prepared several recommendations for amendments to be made to the Election Act, 1984." 2. "My office has studied how we might reduce the costs of the Notice of Enumeration Card and found that we are able to reduce the cost of production only marginally."
February 12, 1987	***Ontario Housing Corporation** 1. The Committee recommends that OHC submit all contracts for security services in its housing projects to a competitive tendering process and, further, that OHC ensure that Management Board is advised of the results of a tender call before a contract is awarded. 2. The Committee has some concerns about OHC's reliance on private companies to provide security services to its housing projects. The Committee therefore recommends that OHC and Management Board examine the comparative cost and service implications of creating an in-house security service or establishing a Crown corporation to handle security requirements. 3. The Committee strongly urges OHC to undertake a comprehensive cost analysis of security incidents and to monitor more closely the types of incidents by project, housing authority and region. 4. The Committee recommends that OHC consider methods of verifying reports of security problems to ensure that reporting of incidents is accurate.

Exhibit 9

Date of Report	Recommendation/Status
	Status: In his letter of July 6, 1987 the Deputy Minister of Housing reported as follows: 1. "We agree with this recommendation. Contracts for security services will be tendered in the future, as existing contracts expire. . . . Management Board will be advised of the results of tender calls prior to the awarding contracts, . . ." 2. "We agree with this recommendation. A committee is being constituted comprised of Housing Authority staff, Housing Authority Board Members and a consultant with an appropriate background. . . . "The contract with (a security firm) expires July 1990. The results of this review will be submitted to Management Board in late 1989." 3. "Currently, where security services are used, logs recording all security incidents reports are kept and submitted to the housing authority. These records will be reviewed and appropriate ways to summarize this information across the Province will be developed. ". . .Vandalism is the major category of security incident which lends itself to a cost analysis. At the present time, the Ontario Housing Corporation is studying vandalism across the Province and methods are being investigated to capture the cost of vandalism." 4. "We agree with this recommendation. . . . Documentation is being improved. Meetings and communication with maintenance staff and project managers are formalized and a survey of tenants is being planned. These measures should greatly improve the accuracy of incident reports."
February 12, 1987	***Ontario Lottery Corporation** 1. The Committee recommends that the Ontario Lottery Corporation continue to advertise openings for distributorships and ensure that all qualified applicants are made aware of and considered for these positions. 2. Although the Committee does not disapprove of Corporation employees being selected for distributorships when these employees are the most suitable candidates, the Committee feels that appearances of unfair advantage in making appointments should be avoided. The Committee recommends that the Corporation consider developing conflict of interest guidelines to prevent employees from benefiting from their association with the Corporation.

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Date of Report	Recommendation/Status
	Status: The Minister of Tourism and Recreation advised on June 16, 1987 as follows: 1. "... the Corporation, at my direction, began advertising openings for distributorships in 1985. This ensures all qualified applicants are made aware of and considered for these positions. Please be assured this practice will continue." 2. "... the Committee's comments are noted as to the appearances of appointment of OLC employees to distributorships. There is, however, already in place a conflict of interest policy at the Corporation..."
February 12, 1987	***Algonquin College of Applied Arts and Technology, Ottawa** 1. The Committee recommends that the Provincial Auditor do a follow-up audit on Algonquin College by November 1985 and report back to the Committee. 2. The Committee recommends that the Provincial Auditor continue to monitor the status of corrective actions taken by the College and the Ministry and keep the Committee informed of significant developments. 3. The Committee recommends that the Board of Directors of Algonquin College be restructured to serve the best interests of the College and the public. 4. The Committee continues to be concerned about the excessive number of sabbaticals taken by Algonquin College staff and the breaking of rules associated with sabbatical leaves. The Committee therefore recommends that the College attempt to rectify this problem. 5. The Committee recommends that there be an internal auditor for Algonquin College and that this auditor have sufficient power and authority to ensure effective control of the College's financial and management systems. *Status:* 1. We presented a progress report to the Committee in December 1985. 2. We issued a report in July 1986 in which we concluded that the actions taken by the College were generally satisfactory. The Deputy Minister of Colleges and Universities advised on June 22, 1987 as follows: 3. "By December of 1985, the Board of Governors of Algonquin College provided for representation on Board Committees by members of the Faculty Union, Administrative Staff

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Date of Report	Recommendation/Status
	Association, Support Staff Union and Student Union. The Faculty Union declined the invitation. On January 14, 1987 Colleges and Universities Minister, Gregory Sorbara, announced major changes in the governance structure of Ontario's colleges. One of the changes requires the Board of Governors to be expanded, to include one student, one faculty member, one administrative staff member and one support staff member. This change is reflected in the revised Regulation #640 effective April 6, 1987." 4. "Algonquin College has significantly reduced the number of sabbatical leaves since the Committee's report was issued. There were 41 sabbaticals in 1983-84; 42 in 1984-85; 14 in 1985-86; 15 in 1986-87; and 19 will be granted in 1987-88." 5. "On September 2, 1986 the college hired an internal auditor. The auditor, along with the reorganized Administration and Finance Division of the college, should provide effective financial management for Algonquin College."
February 12, 1987	***Ministry of Natural Resources** The Committee recommends that the Ministry of Natural Resources consult on a regular basis with the Ministry of Transportation and Communications regarding the location and construction of roads built in areas covered by Forest Management Agreements. *Status:* On June 12, 1987 the Deputy Minister advised as follows: "As a regular policy, before any Forest Management Agreement is entered into, every five years thereafter and in the event that an interim amendment is needed, there is full public consultation on the timber management plan. . . . Relevant government ministries and agencies, including the Ministry of Transportation and Communication, together with interest groups and individuals, are invited to participate in the development of the plan."
February 12, 1987	**Industrial Accident Prevention Association** The Committee made 20 recommendations with regard to the financial administration of the IAPA and other aspects of its operations. A number of these recommendations involved the Workers' Compensation Board and/or the Ministry of Labour. *Status:* To allow the Association, the Board and the Ministry sufficient time to study and act on the recommendations, we have deferred our status review until our 1988 Report.

Date of Report	Recommendation/Status
February 12, 1987	***IDEA Corporation Investments** The Committee strongly urges the government to launch a full judicial inquiry into the failure of Wyda Systems (Canada) Inc. The Committee further recommends that action be taken through the courts and every other available means to recover the $3 million invested in the company. *Status:* The Deputy Attorney General wrote on September 17, 1987 as follows: "With respect to the recommendation that the government launch a full judicial inquiry into the failure of Wyda Systems (Canada) Inc., I understand that the Chairman of the Standing Committee on Public Accounts moved the adoption of this recommendation in the Legislature on December 11, 1986 and on February 12, 1987. The government declined to appoint a judicial inquiry and the debate on the recommendation was adjourned on both occasions. "Ontario Development Corporation has commenced legal steps to recover the $3 million invested in Wyda. In December 1986, it applied to the court for the appointment of a Receiver for the assets and undertakings of Wyda Systems (Canada) Inc. In February 1987, the Corporation filed a statement of claim against the principal shareholder and President of Wyda."
February 12, 1987	***Retirement of the Clerk of the House** The Committee recommends that the terms and amount of payouts given to public servants upon their retirement or removal from office be made available for public scrutiny. The Committee also recommends that such payouts be detailed among the expenditures listed in Volume 3 of the Public Accounts of Ontario. *Status:* On September 30, 1987 the Deputy Minister, Human Resources Secretariat, advised as follows: "It would not be appropriate to disclose the personal financial information of employees to whom termination payments are given, but we are actively considering methods by which information can be provided to the public that will reflect the amount that the termination payment represents of an employee's salary or an expired contract. The aim is to provide meaningful information that will not disclose the personal circumstances of a particular employee. We are considering, with the Ministry of Treasury and Economics, the appropriate format and mechanism of showing this information in public accounts.

Exhibit 9

Date of Report	Recommendation/Status
	"We recognize the necessity for making the public aware of as much information as possible concerning the severances negotiated by the Crown with its employees, and our ultimate resolution must try to balance the recognized public need to know against an employee's right to privacy."

NOTE: This exhibit provides the status of all recommendations contained in the Standing Committee on Public Accounts' 1985 and 1986 Report tabled February 12, 1987 in the Legislature. The exhibit also includes the status of recommendations considered unresolved per Exhibit 9 of our 1986 Report.

*Considered sufficiently addressed as at September 30, 1987.